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Department for Work and Pensions

Research Report No 506

Employment transitions and the changes in economic circumstances of families with children: Evidence from the Families and Children Study (FACS)

Matt Barnes, Nick Lyon and Jane Millar

A report of research carried out by the National Centre for Social Research on behalf of the Department for Work and Pensions

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The authors take responsibility for any errors or omissions in this report.

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Glossary

Child Tax Credit (CTC)	A payment created to support families, or individuals with at least one child or young person for whom they are responsible.
Couple family	A family with dependent children that is headed by one natural or adoptive parent and a partner.
Dependent children	Children aged 16 years or younger, or 17 or 18 years and in full-time education.
Dual-earner family	A couple family where the mother and her partner both work for 16 or more hours per week.
Equivalised income	The process by which total income is adjusted for family size (number of family members) and composition (number of parents and number and age of children).
FACS	The acronym used to describe the Families and Children Study.
Family (unit)	Comprises two generations of people; at least one dependent child and at least one adult who is responsible for this child.
Income AHC	Income after housing costs are deducted.
Income BHC	Income before housing costs are deducted.
Income poverty	Income below 60 per cent of median equivalised total disposable income, before housing costs.

In-work tax credits	The collective term used in this report for Working Families Tax Credit (WFTC) and Working Tax Credit (WTC).
Lone father	A male lone parent.
Lone mother	A female lone parent.
Lone parent family	A family with dependent children that is headed by one natural or adoptive parent only. Lone parents may be male or female.
Mother	Used to refer to the person who took part in the main FACS interview. This person was usually the family's 'mother figure' – an adult with the main responsibility for looking after the children in the family. In the vast majority of couple families this person was female. In lone parent families this person was either the lone mother or the lone father.
No-earner family	A family where no parent worked for 16 or more hours per week.
Not working	No work or work of less than 16 hours per week.
Single-earner family	A couple family where just one parent worked for 16 or more hours per week.
Parent	The adult responsible for the child. This can be the child's natural or adoptive parent, or the legal guardian(s) to whom Child Benefit is paid. In couple families both adults are referred to collectively as the parents.
Partner	The person with whom the mother shares a home.
Work	Paid employment of 16 or more hours per week.
Working Families Tax Credit	Replaced Family Credit in 1999 and was a tax credit available to working families responsible for at least one dependent child.
Working Tax Credit	Additional financial support for workers on a low income. It can be claimed by individuals with and without children.

Summary

This study uses longitudinal data from the Families and Children Study (FACS) to explore the impact of movements in and out of paid employment on the economic circumstances of families with children. It also looks at the circumstances of families that receive in-work tax credits to investigate how their economic circumstances change following employment transitions.

How is work defined and how many families are in work?

In this report work is defined as that of 16 or more hours per week and comparisons are made between those in work and those not in work. No distinction is made between work of less than 16 hours per week and not working, as very few parents work for less than 16 hours per week. For couple families, the work status of both parents is considered together. Hence couple families are referred to as no-earner, single-earner, and dual-earner families.

According to the 2005 wave of FACS, over half (53 per cent) of lone parent families and the vast majority (94 per cent) of couple families had at least one parent who worked for 16 or more hours per week. Very few (five per cent) lone parents worked for less than 16 hours per week. Couple families were more likely to be dual earners (57 per cent of all couple families) than sole earners (37 per cent). In sole-earner couple families the father was more likely to be in work than the mother. Only one in twenty (five per cent) couple families had neither parent in work for any hours per week.

How many families are receiving in-work tax credits?

Families in work may be eligible for tax credits. Working Tax Credit (WTC) is available to low-paid working people, including those who do not have children. The amount of WTC paid is based on the number of hours the claimant works per week, whether he or she has a limiting disability, and the overall level of his or her income. Child Tax Credit (CTC) is paid to families with dependent children regardless of their parental employment status, based on gross taxable family income. If a family is working for 16 or more hours per week and has one or more dependent children then they often receive a joint award of CTC and WTC.

Two-thirds (65 per cent) of working lone parent families were in receipt of WTC. One quarter (25 per cent) of single-earner couple families and one in ten (nine per cent) dual-earner couple families were receiving WTC. On average lone parent families received £101 in tax credits (£58 WTC and £43 CTC). Sole-earning couple families received a similar amount to lone parent families (£56 WTC and £42 CTC), and dual-earning couple families received a lower amount (£30 WTC and £35 CTC).

How is income poverty defined and how many families are in income poverty?

This report uses a standard measurement of income poverty, which is reported in the Households Below Average Income series, annually produced by the Department for Work and Pensions. This sets the low-income threshold at 60 per cent of median disposable household income before housing costs. In 2005 almost one in five (18 per cent) families with children were living in income poverty.

Family work status has a clear relationship with income poverty. More than half of families that did not have a parent who worked for at least 16 hours per week were in income poverty (55 per cent of lone parent families and 57 per cent of couple families). There were very few (three per cent) dual-earning couple families in income poverty. However, having just one parent who works for 16 or more hours per week does not guarantee that the family will avoid income poverty. One in seven (13 per cent) working lone parent families were in income poverty, as were 15 per cent of couple families where just one parent worked for 16 or more hours per week.

Families receiving in-work tax credits are usually families with one low-paid earner. About one in five (19 per cent) families in receipt of in-work tax credits were in income poverty; 13 per cent of lone parent families and 23 per cent of couple families.

How is hardship defined and how many families are in hardship?

This report defines hardship by calculating a living standards hardship index that combines information on material well-being, accommodation and housing conditions, and the state of family finances. According to the 2005 wave of FACS, one in five (19 per cent) families with children experienced severe hardship – scoring three or more on the living standards hardship index. Rates of severe hardship also varied according to family work status. Among non-working families, 63 per cent of lone parent families and 52 per cent of couple families were experiencing hardship. In-work lone parent families recorded a higher rate of severe hardship (24 per cent) than both single-earner and dual-earner couple families (13 per cent and five per cent respectively).

A quarter (26 per cent) of all families receiving in-work tax credits experienced severe hardship, comprised of 30 per cent of lone parent families and 23 per cent of couple families. About one in seven (14 per cent) working families receiving WTC experienced both income poverty and severe hardship. Single-earner couple families were the most likely (22 per cent) to experience both income poverty and severe hardship.

What is the impact of moving into work on income poverty and hardship?

Five waves of FACS data, covering the period from 2001 to 2005, were used to look at the association of movements into and out of work with changes in the economic circumstances of families. Between two annual waves of FACS 13 per cent of families moved into work, and couple families were more likely than lone parent families to do so (the respective proportions were 21 per cent and 12 per cent). Following a transition into work, a substantial proportion (70 per cent) of families had moved out of income poverty a year later, and this figure was the same for lone parent and couple families. Lone-parent families who received in-work tax credits had higher income poverty exit rates after one year than couple families who received them (75 per cent and 62 per cent respectively exited poverty). Rates of income poverty exit improved further for families that remained in work for a further year – 77 per cent of lone parent families and 78 per cent of couple families had escaped income poverty two years after finding and remaining in work.

Moves out of hardship following a transition into work were less pronounced and happened at a slower rate than moves out of income poverty. Overall, the exit rates from (severe) hardship after one year were similar for couple and lone parent families; 38 per cent of lone parent families and 42 per cent of couple families escaped hardship. A sizeable number of both lone parent and couple families that remained in work for two years experienced a move out of hardship in the second year after a move into work. Although sample sizes limit the analysis (and hence these results should be treated with caution), the general picture is that two years after a move into work, couple families had slightly higher hardship exit rates than lone parent families, as did families receiving in-work tax credits. At the end of the two-year observation period over half of lone parent families (55 per cent), and three fifths of couple families (63 per cent), who moved into work and remained in work for two years, had escaped hardship.

What is the impact on income poverty and hardship of moving out of work?

The research also looked at families that had a transition out of work. Relatively few families made this transition over one year, with lone parent families more likely to than couple families (eight per cent and two per cent respectively). Again

this limits sample sizes that could be used in the analysis and hence some of the findings here should be treated with caution. The impact of leaving work on income poverty was starker for couple families than lone parent families – three quarters (74 per cent) of couple families who left and remained out of work for two years moved into and stayed in income poverty, compared to half (54 per cent) of lone parent families. The proportions moving into hardship were markedly lower, which is to be expected given the more immediate impact that losing a job has on family income. One-third (32 per cent) of couple families who left and remained out of work for two years moved into and stayed in hardship, compared to one quarter (26 per cent) of lone parent families.

What are the main factors associated with changes in economic circumstances?

Movements in and out of work were the key factors associated with changes in income poverty and hardship status over time. Other factors were also associated with these changes, including family size, ethnicity, and tenure. Over the two-year period, and taking these other factors into account, couple families that moved out of work were more likely than lone parent families that moved out of work to have moved into income poverty and hardship – as were families who had received in-work tax credits. This is not surprising, as families in receipt of in-work tax credits tend to have low incomes in work and are therefore nearer to the income poverty and hardship thresholds. Thus, it would only take small decreases in income or living standards for them to drop below these levels.

What are the implications of this research for policy?

This and other research has shown that employment can help families escape income poverty. Parents who moved into work of 16 or more hours per week usually found that the increased income they received from work moved them out of income poverty quite quickly. However, for many, a move out of material hardship was a much slower process.

In-work tax credits play an important role in supplementing earnings. Most families who received in-work tax credits had low earnings and so were often closer to the income poverty threshold than families who did not receive them. This was particularly true for single-earner couple families. For these families in-work tax credits did not entirely make up the difference between family income and the income poverty threshold. The evidence from this report also shows that if parents lost their jobs (or worked for less than 16 hours per week) their family was likely to make a transition into income poverty again. This suggests that tax credit policy needs to sit closely with labour market policies, and that a dynamic approach is needed to ensure that families that move into work can retain and progress in work, to minimise their risk of falling back into poverty.

1 Introduction

Since 1997 there has been a significant shift in social security policy for families with children. The aim of this policy has been to reduce child poverty through increased generosity of benefits and to encourage paid work through increased generosity of in-work support, for example, through the introduction of the Working Families Tax Credit (WFTC) in 1999, and the Working Tax Credit and Child Tax Credit in 2003.

These policy reforms represent an important part of the strategy to eliminate child poverty by 2020 (HM Treasury, 2004 and 2008). They are supported by a range of research evidence that has shown that households are significantly more likely to avoid income poverty and hardship if a member of the household is working for 16 or more hours per week (Vegeris and Perry, 2003). However, while the proportion of children living in families below the most commonly used relative low-income threshold (60 per cent of median household income) has fallen by four percentage points, from 26 per cent in 1998/99 to 22 per cent in 2006/07, more than one-fifth of British children are living in low-income families (Department for Work and Pensions, 2008).

Despite the emphasis placed on encouraging work among families with children there is relatively little research on how a move into work impacts on living standards. The aim of this project therefore is to investigate the economic circumstances of families with children following transitions into and out of the labour market. More specifically, the report will explore two main research questions:

- What is the impact on the income and living standards of families with children following a move **in to** work of 16 or more hours per week?
- What is the impact on the income and living standards of families with children following a move **out of** work of 16 or more hours per week?

The analysis also considers the receipt of in-work tax credits and, where sample sizes allow, looks at the circumstances of families according to in-work tax credit receipt. The extent to which in-work tax credits (and other in-work support) improves and maintains living standards is an important issue, but not one that can be fully addressed with these data. This is because in-work tax credits are paid to families with children who earn less than a certain level, and so those in receipt

tend to be lower-paid workers. Because the factors that make a family eligible for WTC are complex, it is not possible to use the FACS data to identify a suitable comparison group for these workers – i.e. low income families who were not claiming but eligible for WTC cannot be identified.

The project uses data from the Families and Children Study (FACS), a representative survey of families with children in Britain. FACS began in 1999 and interviews the same families at annual intervals. It provides a unique data source for investigating changes in the social and economic circumstances of families with children.

Chapter 2 describes the backdrop to this research, summarising the labour market behaviour of parents in recent years. It also briefly outlines the types of in-work support that have been available to families with children since the introduction of tax credits in 1999. The chapter presents data on the work status of families and the receipt of in-work tax credits using data from FACS wave 7, collected in 2005. It also discusses the economic circumstances of families according to work status and in-work tax credit receipt. Economic circumstances are measured using the Government's definition of relative low income, and an indicator of hardship using information on material goods, accommodation and family finances.

Chapter 3 focuses on families that have made a transition into paid work (of at least 16 hours per week). The longitudinal element of FACS (2001 to 2005) is used to follow families for one and two years after this transition into work to assess changes to their income and living standards. The analysis also considers whether families received in-work tax credits over this time.

Chapter 4 reverses the focus of the previous chapter and concentrates on families that made a transition out of work. Once again the FACS data (2001 to 2005) allow us to look at the impact of this move on families' income and living standards one and two years after leaving work.

The final chapter summarises the main findings of the research and directions for policy. It focuses on the impact of work transitions on changes in income and living standards. It also discusses areas for further research that have emerged from the investigations of this study.

2 Labour market status, in-work support and the economic circumstances of families with children

This chapter describes the backdrop to this research project. The focus of the research is on work and the economic circumstances of families with children following a move into or out of work, and hence this chapter begins with a brief synopsis of the labour market behaviour of parents in recent years. As parts of the research will also consider families in receipt of in-work tax credits, the types of in-work support that have been available to families with children since the introduction of tax credits in 1999 are briefly outlined.

The chapter uses data from the Families and Children Study (FACS) (wave 7, collected in 2005) to illustrate the work status of families and their receipt of in-work tax credits. The chapter also describes the measures of economic circumstances that are used in the report – income poverty and living standards hardship.

2.1 Labour market participation of families with children

The changing situation of parents, particularly mothers, in the labour market in recent decades has been well documented¹. The labour market participation of mothers has increased during these times, although mothers' employment rates still vary quite considerably according to family type and other factors such as age, qualifications, housing tenure, and ages of children. Married or cohabiting mothers continue to have the highest rates of economic activity, which has led to a rise in the number of two-earner couple families. Just over half of lone mothers are in work, although employment rates are much lower for those with pre-school children. Mothers are also more likely to prefer part-time work as it fits better

¹ See Millar and Ridge (2001) for a summary of evidence on poverty, work and care of lone parent families and low-income couple families.

with their family and caring responsibilities (Millar *et al.*, 2006). The evidence for fathers shows that most are in work and most of these work for at least 40 hours per week.²

There has also been an increasing research focus on examining changes in employment status over time, and in exploring the relationships between family change and employment change. The picture for lone mothers is of low employment rates before becoming a lone mother, as alluded to above, with employment rates tending to fall further during lone motherhood. However, there is also evidence that women who work before entering lone motherhood are more likely to work as a lone mother (Marsh *et al.*, 2001). Iacovou and Berthoud (2000) found that lone mothers who found a partner were more likely to move into work than those who stayed lone mothers.

Couple families have better chances of entering work from unemployment than single people and, in the medium term at least, they tend to stay in the same type of job that they first enter (White and Forth, 1998). The most stable employment pattern is among two-earner couple families. When there are changes to this work pattern, for example through a new birth to the family, these families tend to become single-earner couple families for a period of time (Böheim and Taylor, 2000). As with lone parents who go on to form a relationship with a working adult, both men and women in workless couple families are much more likely to move into work themselves if their partner moves into work (Iacovou and Berthoud, 2000).

A trend towards higher rates of parental employment clearly means a lower income poverty risk for children. But there are still substantial numbers of children with working parents living in income poverty (defined as below 60 per cent of median income before housing costs). Almost half of children in poor families have working parents; 44 per cent of poor children live in working two-parent households, and eight per cent live in working lone parent households (Department for Work and Pensions (DWP), 2008). Workless households with children are particularly at risk of income poverty and in the last three decades there has been an increasing polarisation between work-rich and work-poor households (Berthoud, 2007).

Work is also seen as a protective barrier to family hardships such as poor accommodation, severe money concerns and debt. Vegeris and McKay (2002) used FACS data to show that both couple and lone parent families with children where an adult was working full-time (working 16 hours or more) were more likely to enjoy better living standards compared with non-working families. They also found that remaining in work for a significant period of time was important for avoiding family hardship.

² Statistics on the employment rates of parents, according to family type, are presented in the next section using data from the latest wave of FACS.

Being out of work can considerably increase the risk of a family facing hardship and this has a disproportionate effect on lone parent families and their children (Marsh *et al.*, 2001). Some families are more vulnerable to experiencing hardship and these include those whose parents face long-standing ill health and disability or who have caring responsibilities. Large families and those of a Black or Minority Ethnic group face a proportionately higher risk of family hardship.

2.2 The role of in-work support

Since 1997 the government has pursued an active programme of reform of social security benefits and employment services, many of which are aimed at families with children. The key policy goals are to raise employment rates, particularly for disadvantaged groups, and to eliminate child poverty. The two are seen as closely linked: *'work is at the heart of our welfare reform programme...paid work is the surest route out of poverty'* (Department for Social Security, 1998, p3). These goals have been pursued by two main sets of policies, which are outlined below.

First, the New Deal programmes aim to help unemployed and non-employed benefit claimants into work, through a mix of job search support, training and practical help to make the transition to work. Benefit claims and employment services are now integrated into a single service (Jobcentre Plus) and a range of help is on offer, with various degrees of conditionality for different groups of claimants. Second, there is a range of measures intended to 'make work pay', aimed at increasing financial incentives to work. These include the introduction of a national minimum wage, reductions in tax and national insurance contributions for lower-paid workers, and the introduction of a new system of income transfers to working people, in the form of tax credits.

The aims for the new tax credits were set out by HM Treasury (2002) as follows:

- supporting families with children, recognising the responsibilities that come with parenthood;
- tackling child poverty, by offering the greatest help to those most in need, such as low-income families; and
- helping to make sure that work pays more than welfare and that people have incentives to move up the earnings ladder.

Tax credits were introduced in two stages. First, in 1999, Working Families Tax Credit (WFTC) and the Disabled Person's Tax Credit were introduced. These replaced the existing Family Credit system, but took much the same form (i.e. they were for families with children, were means-tested on weekly income, and were for those working above a set number of hours per week), although they were assessed and paid through the tax system, rather than social security benefits. Second, in 2003, these (and various other benefits and parts of benefits) were replaced by two new 'next generation' tax credits: Working Tax Credit (WTC) and Child Tax Credit (CTC).

2.2.1 WFTC

WFTC was in operation between 1999 and 2003. It was available to families who were responsible for at least one child³ and who worked 16 hours or more per week. The amount payable was based on family size and net family income assessed over a five-week or two-month period. As noted above, WFTC was administered by the Inland Revenue (IR⁴) and paid either through the pay packet or directly by IR. WFTC was more generous than the Family Credit system that it replaced, with a higher earnings threshold and more assistance with childcare costs (Inland Revenue, 1999). In the last year of WFTC in 2002, families where an adult worked 16 hours or more a week and who earned less than £4,940 per annum were eligible to receive the maximum amount of WFTC. This was an annual supplement of £3,250 basic tax credit plus an additional £606 if an adult worked 30 or more hours a week. Families were also eligible to receive an additional £1,375 per year for each dependent child under 16 in the family⁵.

2.2.2 WTC and CTC

WTC was introduced in April 2003 and remains in operation at the time of this research. It is available to working people on low to moderate incomes (whether employed or self-employed), including those who do not have children.

An individual without children is eligible to claim WTC if he or she:

- is 25 years or over and works at least 30 hours per week;
- is 16 years or over and works at least 16 hours per week and has a limiting disability; or
- is 50 years or over (or his/her partner is 50 or over) and works at least 16 hours per week and has returned to work in the last year after claiming out of work benefits for at least six months.

An individual with children is eligible for WTC if he or she:

- is 16 years or over; and
- works at least 16 hours a week.

The amount of WTC award is based on the number of hours the claimant works per week, whether he or she has a limiting disability and the overall level of his or her family income. Some elements of a WTC award are increased in April each year; the value of the awards used as illustrations in this section relate to the award

³ Defined as a person under 16 years old, or younger than 19 and in full-time education.

⁴ Now HM Revenue & Customs (HMRC).

⁵ For each dependent child aged 16 to 19 years old in the family £1,414 per week was received. For more details see <http://www.hmrc.gov.uk/manuals/acgmanual/Introduction/acg00013.htm>

levels in 2005/06. In 2005/06 a lone parent without a disability, working 30 hours per week and with an income of £8,000 per year would have received a WTC⁶ amount of £2,847 per year. A couple family without children, and with an income of £14,000 per year, would have received a WTC amount of £628 a year.

In addition to this there is also a childcare element for families who are using registered childcare services. In 2005/06 this paid up to 70 per cent of the costs of childcare, up to a ceiling of £175 per week for families with one child and £300 per week for families with two or more children. This is only available to couple families when both parents are in work.

CTC, which was also introduced in April 2003, is paid to families with dependent children, regardless of parental employment status, based on family gross taxable income. It is paid at the maximum rate for families receiving Income Support (IS) or income-based Jobseeker's Allowance, and in 2005/06 to families with incomes less than £13,910. But it is also payable to families with an income of up to £58,000, although people whose income is greater than £50,000 will receive only the 'family element'. The tax credit has two main parts – a family element and a child element. The value of those elements in 2005/6 was:

- family element (which is a fixed amount per family and not per child): £545 per year, and £1,090 in the year of a child's birth; and
- child element: £1,690 per child per year.

In 2005/06, all families with incomes of less than £50,000 a year received at least £545 per year from the 'family element' of the credit. In addition, families with incomes up to at least £13,910 per year, sometimes more, qualified for the full 'child element' of £1,690 per year for each child. This child element is gradually withdrawn from families with higher incomes. If a family is working 16 or more hours per week and has one or more dependent children then they often receive a joint award of CTC and WTC. Child Benefit continues in payment for all children.

2.3 Employment rates, income poverty and hardship: FACS 2005

This report uses evidence from FACS to investigate the impact of movements into and out of work on the income and living standards of families with children. This section uses FACS to look at families at one moment in time, using the almost 7,000 families with dependent children interviewed in the 2005 wave of FACS (1,910 lone parent families and 5,066 couple families). It begins by looking at the work status of families with children, categorising families according to the number of hours worked by each parent, and receipt of in-work tax credits. The final part of this section looks at rates of income poverty and hardship, and includes a discussion of how each of these issues is measured in this report.

⁶ Excluding childcare element of WTC.

Methodology box 2.1 – the Families and Children Study (FACS)

FACS is a series of annual surveys that investigate the circumstances of British families with dependent children. The study began in 1999 with a survey of all lone parent families and low-income couple families. In 2001 the study was enlarged to be representative of all families with dependent children.

One of the main objectives of the FACS surveys is to provide information on general family welfare issues, including the Government's long-term targets to eradicate child poverty. The survey, therefore, covers a number of themes related to work, income and living standards, including employment and self-employment; unemployment and job search; receipt of social security benefits and tax credits; and expenditure and hardship. The survey also collects a range of socio-demographic and economic information from the parents and children, including family composition, educational qualifications, health and disability status, and social activities and relationships.

FACS is also a panel study, which means that it returns to interview the same families year after year. It can, therefore, be used to observe dynamic behaviour and experiences. For example, it can be used to answer questions such as 'How many parents move into full-time employment from one year to the next?' and 'How do families' income and living standards change after such a move?'

For more information see the FACS website:
<http://www.dwp.gov.uk/asd/asd5/facs>

2.3.1 Employment status

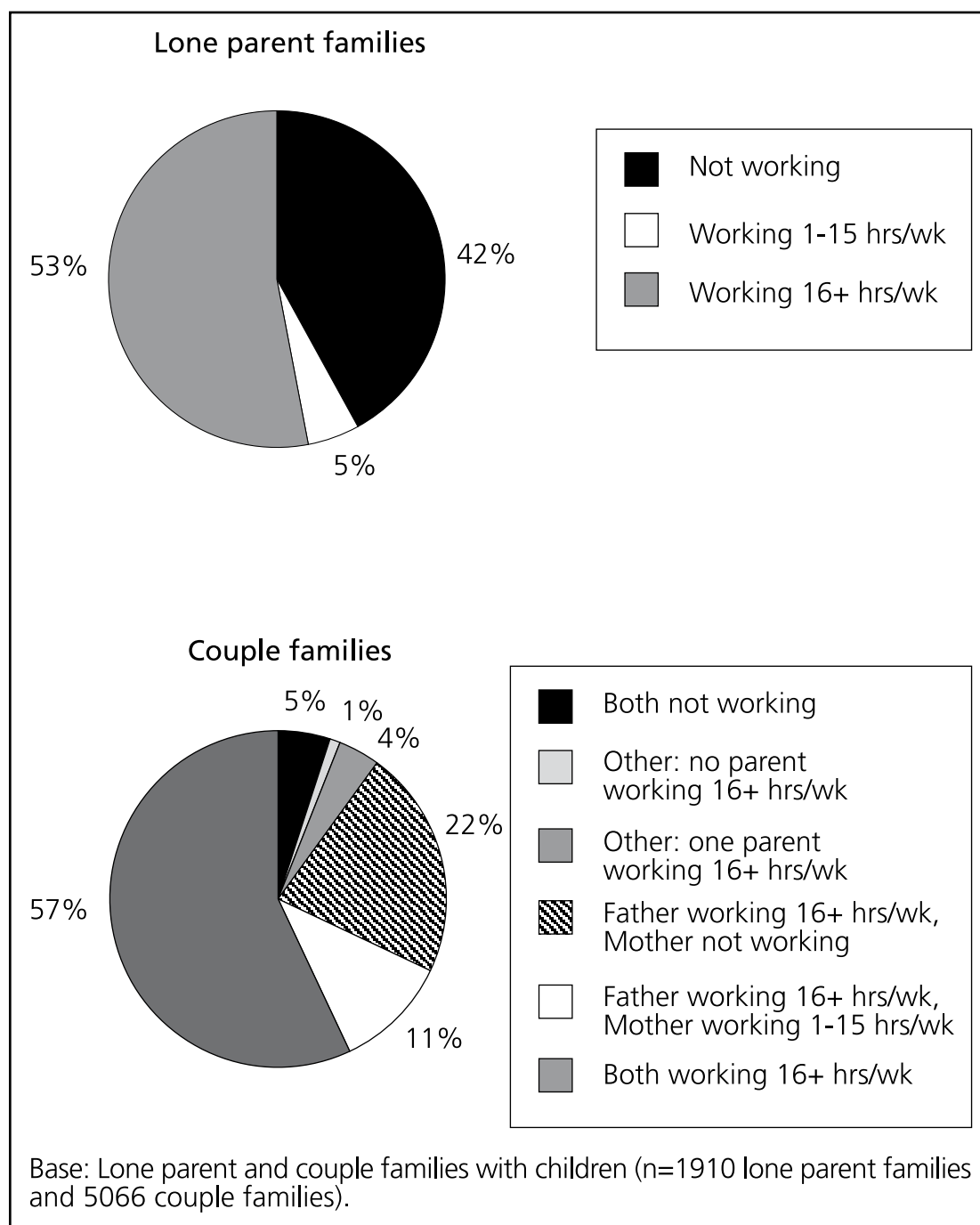
Figure 2.1 shows the work status of lone parent and couple families with children in 2005. The work status of families with children is very much influenced by family composition and in particular whether the family is a lone parent or couple family (as shown below). Lone parent families made up approximately one quarter of families with children in 2005.

Eight out of ten families with children had at least one parent working 16 or more hours per week. As Figure 2.1 shows this varied quite considerably according to family type. Just over one half (53 per cent) of lone parent families were working 16 or more hours per week compared to over nine in ten (94 per cent) of couple families. Two-fifths (42 per cent) of lone parents were not in work compared with a quarter (28 per cent) of mothers in couple families. Very few lone parents work for less than 16 hours per week (five per cent compared with 12 per cent of couple mothers)^{7, 8}.

⁷ Separate statistics for mothers and fathers are not presented in Figure 2.1 but are available from the authors on request.

⁸ 'Other: no parent working 16+ hrs/wk' captures couple families with no parent working 16 or more hours per week that are not covered by the other categories. Likewise, 'Other: one parent working 16+ hours per week' captures couple families with one parent working 16 or more hours per week that are not covered by the other categories.

Figure 2.1 Family work status, FACS 2005



2.3.2 Receipt of WTC

This section focuses on families in receipt of WTC. Because it is the receipt of in-work tax credits and the association with work which is of interest here, it focuses only on families in receipt of WTC, and does not consider families in receipt of CTC only. Later in this section the total amount of tax credits that families receive, both CTC and WTC, is considered, but again only for families in receipt of WTC.

Figure 2.2 shows that one-fifth (21 per cent) of all families with children were in receipt of WTC in 2005. As would be expected, receipt of WTC varied by family

structure and work status, with two-thirds (65 per cent) of lone parent families working 16 or more hours per week in receipt of WTC, compared with one-quarter (25 per cent) of single-earner couple families, and one-tenth (nine per cent) of two-earner couple families.

Figure 2.2 Receipt of Working Tax Credit, FACS 2005

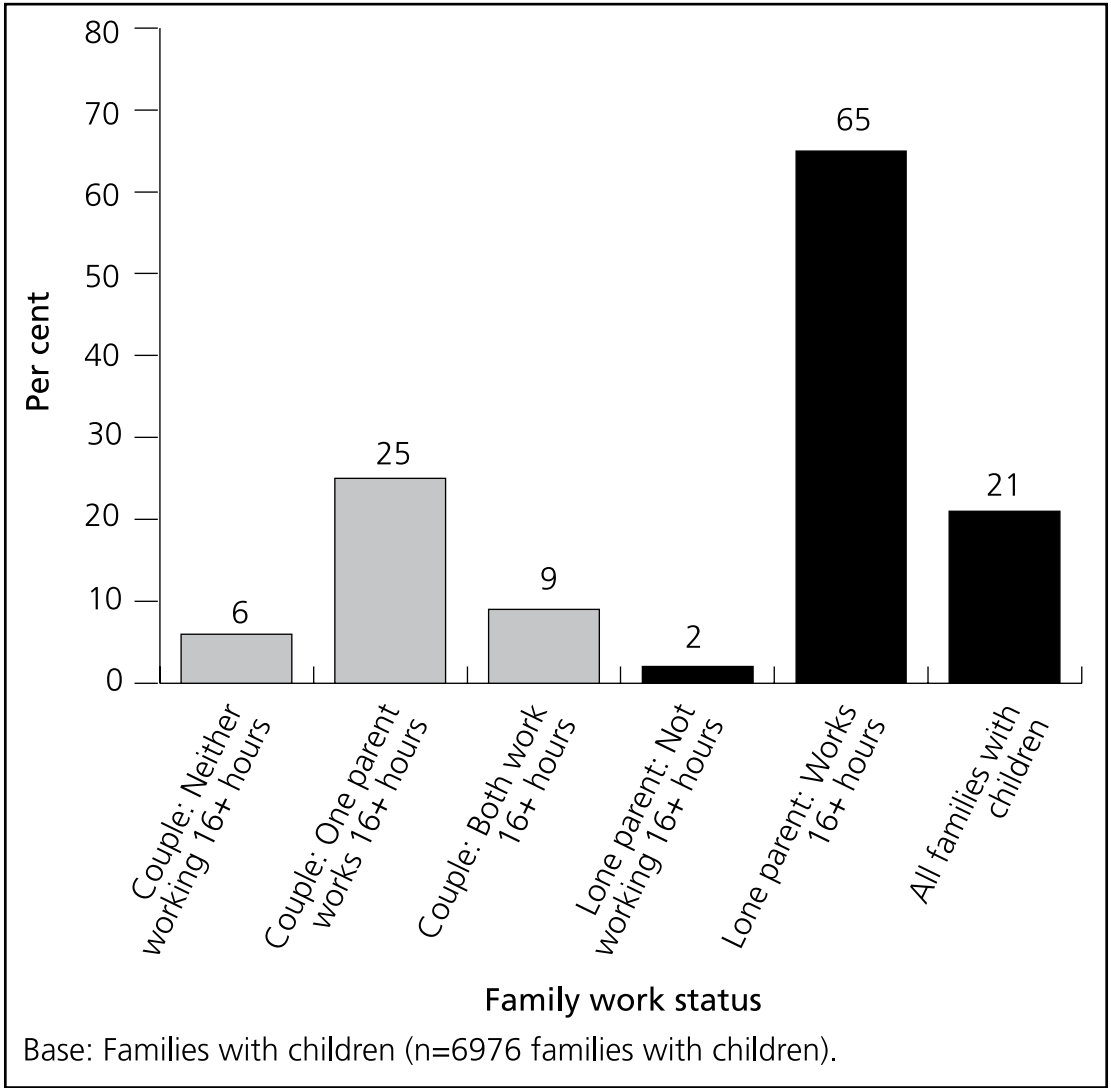
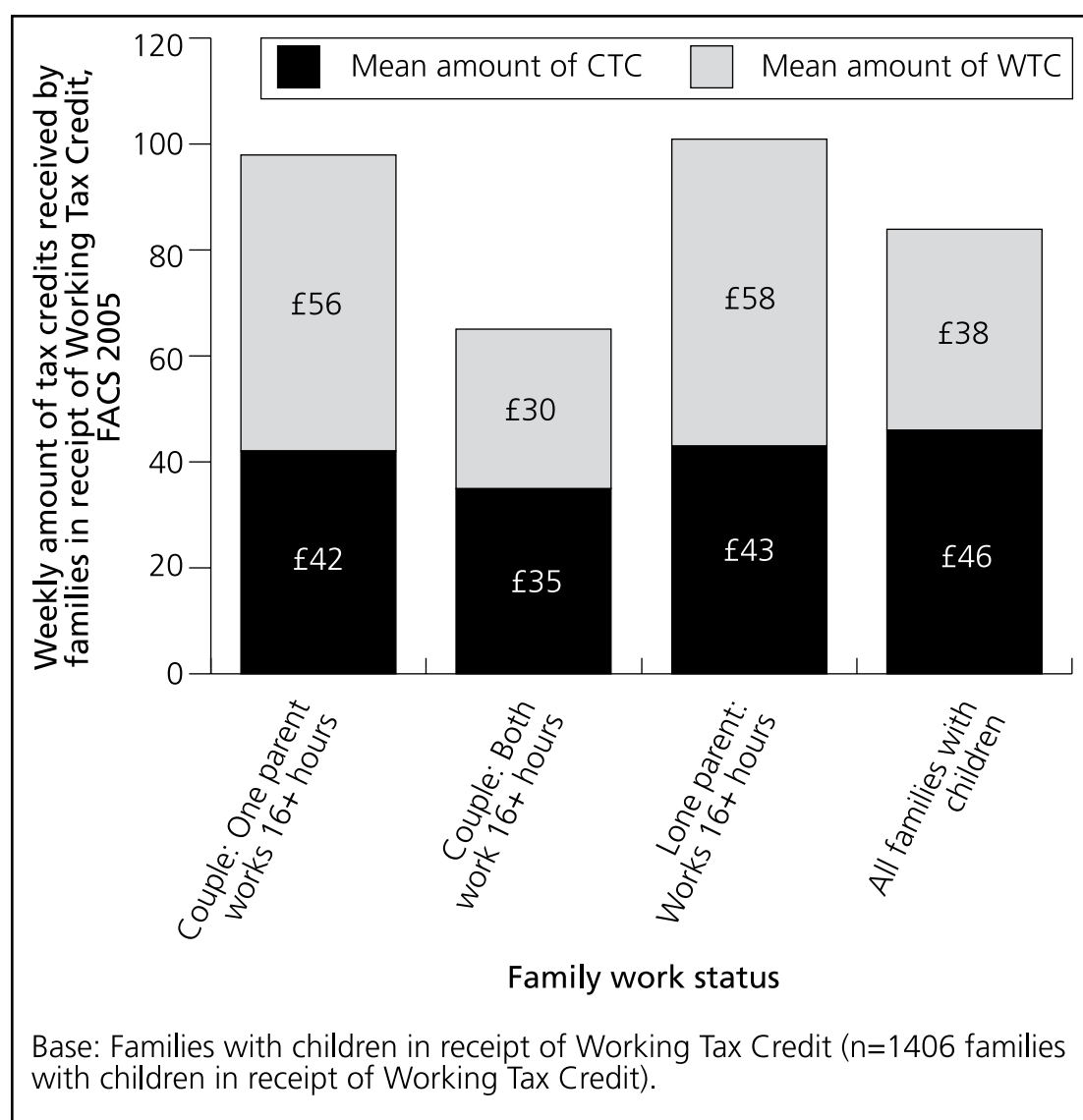


Figure 2.3 shows the average amount of tax credits that families received per week, for all families who were receiving WTC. The average total amount was approximately £84, made up of £38 per week in WTC and £46 in CTC. Lone parent families in receipt of WTC received on average £101 in tax credits per week (an average of £58 of WTC and £43 of CTC per week). Single-earner couple families received about the same as lone parent families (£98 per week), and two-

earner couple families received lower amounts (on average £30 of WTC and £35 of CTC, totalling £65 per week).⁹

Figure 2.3 Weekly amount of tax credits received by families in receipt of Working Tax Credit, FACS 2005



The factors that make a family eligible for WTC are complex and hence it is not possible to use the FACS data to fully understand comparisons between families in receipt of WTC and families not claiming, but who were eligible for, WTC. This is

⁹ Figure 2.2 suggests that a small percentage of non-working families were in receipt of WTC. The lag between the receipt of WTC and the FACS interviews accounts for this apparent discrepancy for these families. Also, some families who were eligible for WTC and CTC were not claiming this. HM Revenue and Customs estimate that approximately nine in ten families with children who are eligible for both WTC and CTC actually receive both and this figure is over nine in ten for families earning below £10,000 per year (<http://www.hmrc.gov.uk/stats/personal-tax-credits/cwtc-take-up.htm>).

because families who do not receive WTC will typically have a higher income than families receiving WTC. However, it is still useful to categorise families according to their receipt of WTC to help understand their levels of income poverty and hardship.

2.3.3 Income poverty

This study uses a standard definition of income poverty as reported in the Households Below Average Income (HBAI) series published annually by the DWP. This definition states that a household is deemed to be poor if its equivalised weekly net household income before housing costs falls below 60 per cent of contemporary household median income. To ensure that the proportion of families with children in FACS matches those produced in official government statistics, estimates from the HBAI series were applied to the FACS dataset (HBAI estimates that 18 per cent of families with children were income poor in 2005). This was achieved by ordering the FACS data on the basis of family income and identifying the poorest 18 per cent of families. The level of income that this identified was used to create a measure that identifies families just above the income poverty threshold. This captures families with between 60 and 70 per cent of family median income.

Methodology box 2.2 – Measuring income in FACS

FACS measures family income via a number of questions asked to the main respondent (and their partner, in couple families) that cover all of the family's sources of income. A measure of total disposable family income is calculated by adding together these sources and then deducting taxes, National Insurance and pension contributions. Council Tax payments (seen as an unavoidable tax) are also deducted. Total family income, therefore, includes the following components:

- usual net pay from employment;
- all social security payments (including Housing Benefit, but not any elements of the Social Fund);
- WTC and CTC;
- income from occupational and private pensions;
- imputed income from investments;
- child maintenance payments; and
- the value of benefits passported with IS and tax credits, if received.

Total family income provides an amount of income that a family has to spend before housing costs. In other words, gross housing costs, defined in the study as rent and mortgage interest payments, are **not** subtracted from the overall amount.

Continued

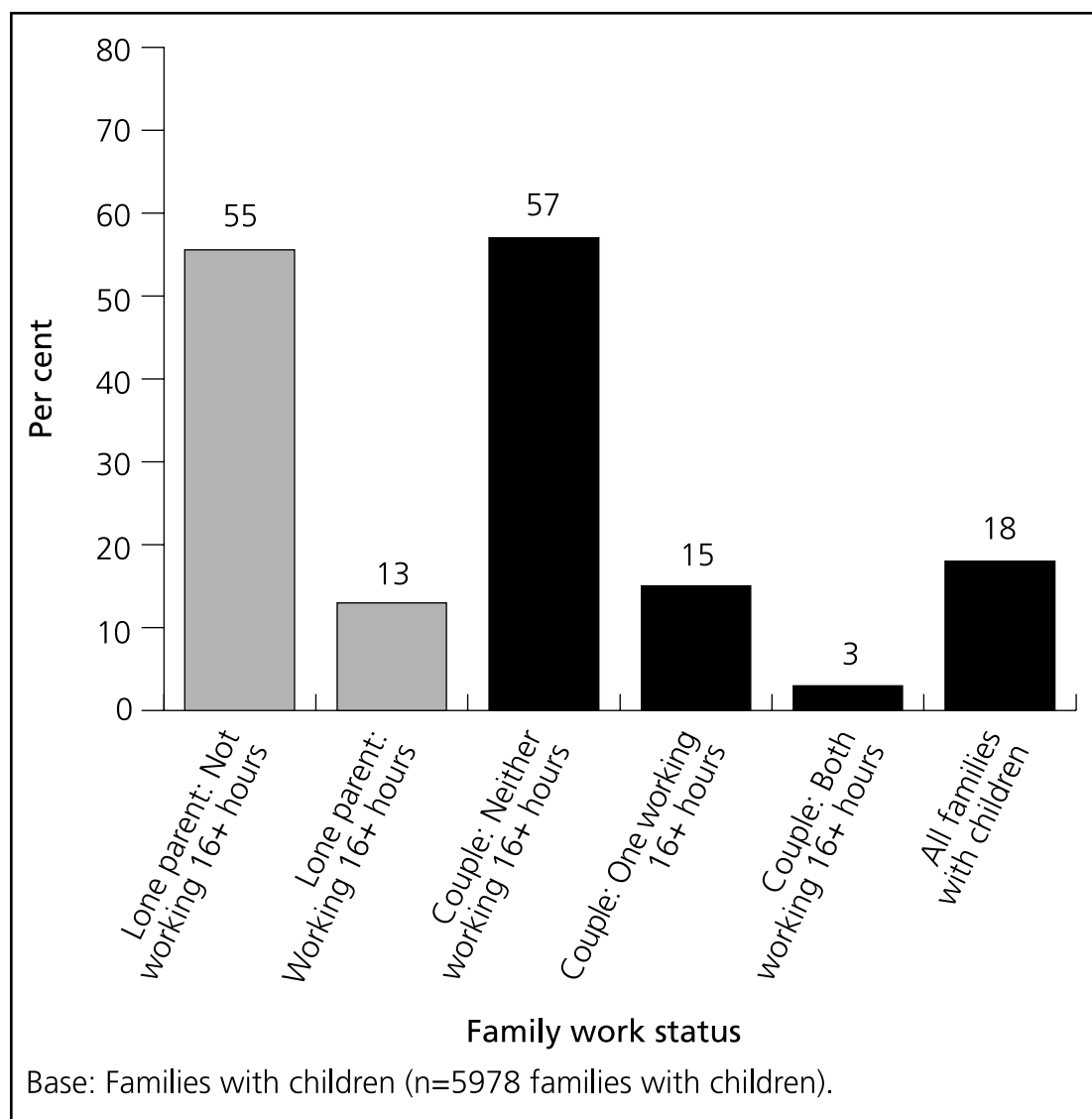
FACS does not collect information for household members outside of the immediate family unit, and so here total family income, rather than total household income, is used. Analysis of income poverty in this report does not consider the income of families where at least one parent was self-employed. Some low-income studies have noted issues relating to the findings among the self-employed group, which can be anomalous in relation their to living standards (DWP, 2005). To date the self-employed income data in FACS has been relatively under-utilised. DWP are currently commissioning some work to clean this data to improve its validity.

A problem with measuring family income is that the size and composition of the family is not taken into account and therefore total family income is not necessarily a true reflection of the family's financial resources and hence its living standards. For example, a couple family with four children that receives £200 per week is unlikely to have the same living standards as a lone parent family with one child that receives the same amount – the couple family has £200 to resource six people while the lone parent family has the same money to resource just two people.

The equivalisation of income is the process by which total income is adjusted for family size (number of family members) and composition (number of parents and number and age of children). There are a number of equivalisation methods and the one used in this report uses the modified Organisation for Economic Cooperation and Development (OECD) equivalence scale, which is also used in the HBAI series (see Appendix A for details of the modified OECD equivalence scale).

Figure 2.4 shows income poverty rates according to family work status for the families in FACS 2005. One of the key objectives of this report is to assess the association between moving into employment and the economic circumstances of families with children. More than half of families that did not have a parent who worked for at least 16 hours per week were in income poverty (55 per cent of lone parent families and 57 per cent of couple families).

Figure 2.4 Risk of being income poor by family work status, FACS 2005



This is a particularly concerning statistic for lone parent families, as Figure 2.1 shows that approximately half of lone parent families were not in work. There were very few (three per cent) dual-earning couple families in income poverty. However, having just one parent who worked for 16 or more hours per week did not guarantee that a family would avoid income poverty. Thirteen per cent of working lone parent families were in income poverty, as were 15 per cent of couple families where just one parent worked for 16 or more hours per week.

Figure 2.5 Income poverty status according to work status for families in receipt of Working Tax Credit, FACS 2005

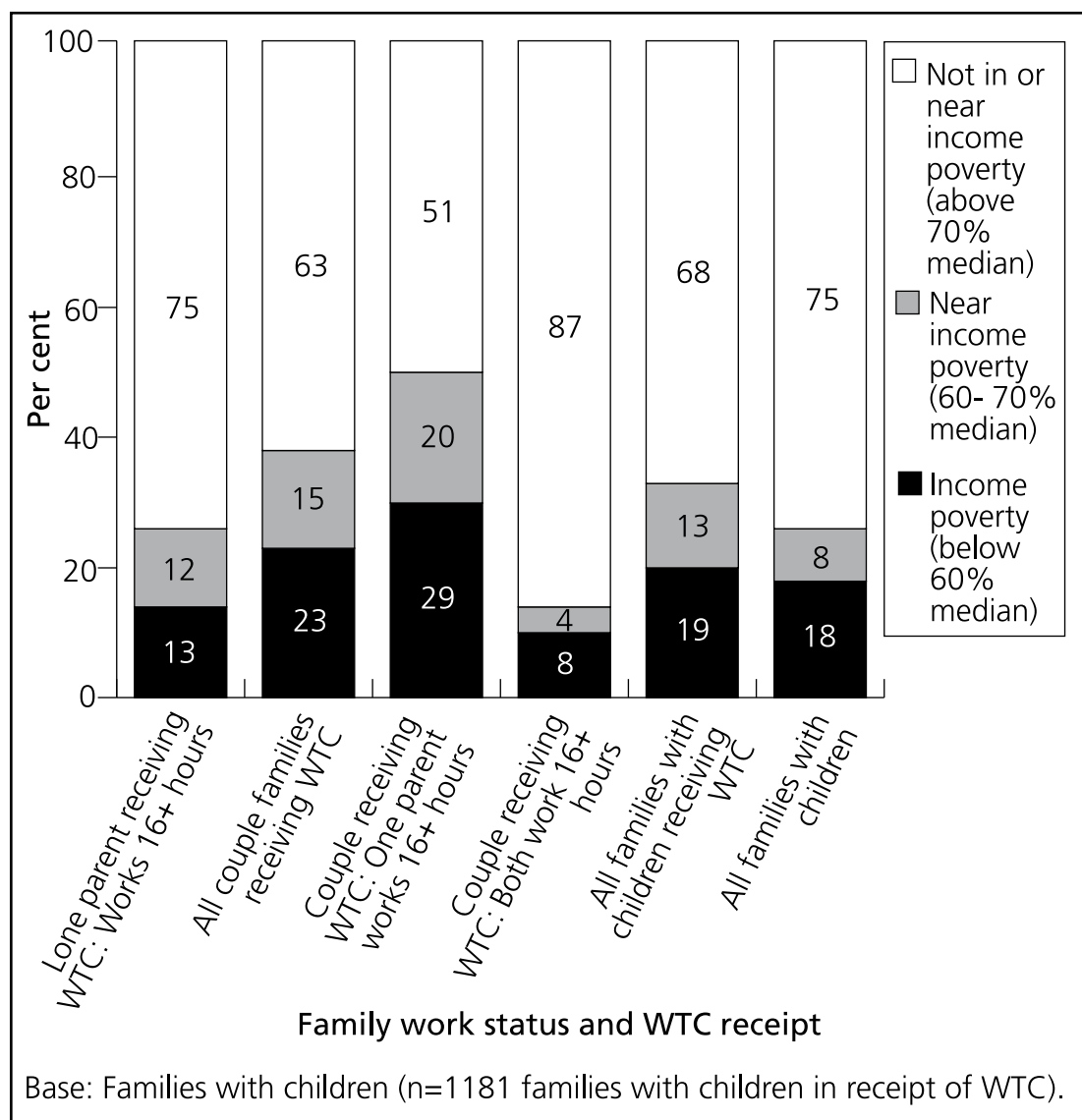


Figure 2.5 investigates income poverty status for families with children in receipt of WTC, taking into account their total income including receipt of WTC and CTC. The analysis is grouped according to family work status and shows the proportion of families with income below 60 per cent of family median income (the income poverty threshold), the proportion close to that threshold (with between 60 and 70 per cent of family median income), and the proportion not in or near income poverty.

The analysis shows that approximately three in ten (32 per cent) of all families receiving WTC were in income poverty (19 per cent), or near to the income poverty threshold (13 per cent). Figure 2.3 shows that the number of parents in work clearly has a major impact on the likelihood of income poverty for couple families. As figure 2.5 shows, among couple families in receipt of WTC, those where both parents worked were less likely to be in income poverty than those where only one parent worked (eight per cent and 29 per cent respectively). In addition, a further

20 per cent of those families where only one parent worked were near the income poverty threshold. A quarter of working lone parent families receiving WTC were also in or near income poverty (13 per cent and 12 per cent respectively).

A possible reason for the disparity between lone parent and couple families mentioned above is the different calculations used to determine levels of tax credits and the income poverty threshold. The methodology used to construct the low-income poverty threshold assumes that a couple family with children requires a higher equivalised income than a lone parent family to achieve the same standard of living. However, the means test calculation for tax credit receipt sets the basic rates at the same level for lone parent families and for couple families. Thus lone parent families and couple families will tend to receive the same amounts of tax credits if they have the same gross income levels, but this amount will have a greater impact on the income poverty status of a lone parent family compared with a couple family.

2.3.4 Living standards hardship

In addition to improving the income of families through in-work support, a key aim of Government as it strives to eliminate child poverty in Britain is to improve living standards (DWP, 2005). This section explores the living standards of families in receipt of WTC according to work status. Living standards are defined here using a measure that captures three aspects of family welfare:

- material well being;
- accommodation and housing conditions; and
- the state of family finances.

In order to allow for more complex analysis of living standards, an overall hardship index – originally derived by Marsh *et al.* (2001) – is created using the nine indicators described below.

Methodology box 2.3 – Defining living standards hardship in FACS

Material well-being

Material well-being refers to the ability of families to afford to have various consumer durables and leisure items. FACS asks about a total of 34 items, which can be grouped into four categories:

(i) food and meals, such as whether a family can afford to provide a cooked main meal every day and fresh fruit on most days;

(ii) clothing and shoes, such as being able to afford two pairs of weather-proof shoes for each child and new, not second-hand, clothes when needed;

Continued

- (iii) consumer durables, such as being able to afford a refrigerator, a telephone and central heating; and
- (iv) leisure activities, such as being able to have money for outings or trips, and to have friends or family round for a meal once a month.

A family is defined as deprived of an item if it did not have it and wanted it, but could not afford it. We adopt Vegeris and McKay's (2002) approach of using a summed score, weighted according to the proportion of families in Britain who own each item, to summarise the material well-being of a family for each of the four categories and across all 34 items. This Relative Material Deprivation Score (RMDS) identifies a family to be in hardship for a category, or across all items, if their score is in the most deprived 20 per cent of all families. Therefore, according to this measure, a fifth of families will always be in hardship.

Accommodation and housing conditions

The second aspect of living standards refers to a family's housing. Three criteria are used; the quality of the accommodation, bedroom overcrowding, and whether the accommodation can be kept adequately warm.

- (v) The quality of accommodation is deemed unsatisfactory if the family reports two or more reported problems with the property. These problems include rising damp in floors and walls; water getting in from the roof, gutters or windows; bad condensation, mould and growth; electrical wiring and plumbing deficiencies; general rot and decay; problems with insects, mice or rats; and problems with draughts.
- (vi) The measure of bedroom overcrowding, or the bedroom standard, takes into account the size, age and gender distribution of a family in proportion to the number of bedrooms in the accommodation. The bedroom standard states that a standard number of bedrooms are required for each household in accordance with its age/sex/marital status composition and the relationship of the members to one another.

A separate bedroom is required for each married or cohabiting couple, for any other person aged 21 or over, for each pair of adolescents aged ten – 20 of the same sex, and for each pair of children under ten. This standard is then compared with the actual number of bedrooms (including bed-sitters) available for the sole use of the household. If a household has fewer bedrooms than required by the standard then it is deemed to be overcrowded.

- (vii) A family lives in accommodation that can not be kept adequately warm if the respondent states that the family can not afford to keep their property warm enough in the winter.

Continued

Family finances

This measure of living standards focuses on aspects of money management and savings. Specifically it looks at expenditure and income, the level of savings, use of credit, number and size of debts, and the financial outlook of a family.

- (viii) If the family has no current or savings bank account and had two or more debts (these can be borrowing debts or behind paying household bills or behind on credit card payments) then they were judged to be disadvantaged.
- (ix) If a respondent worries about money almost all of the time and said that they run out of money almost every week then the family is judged to be disadvantaged.

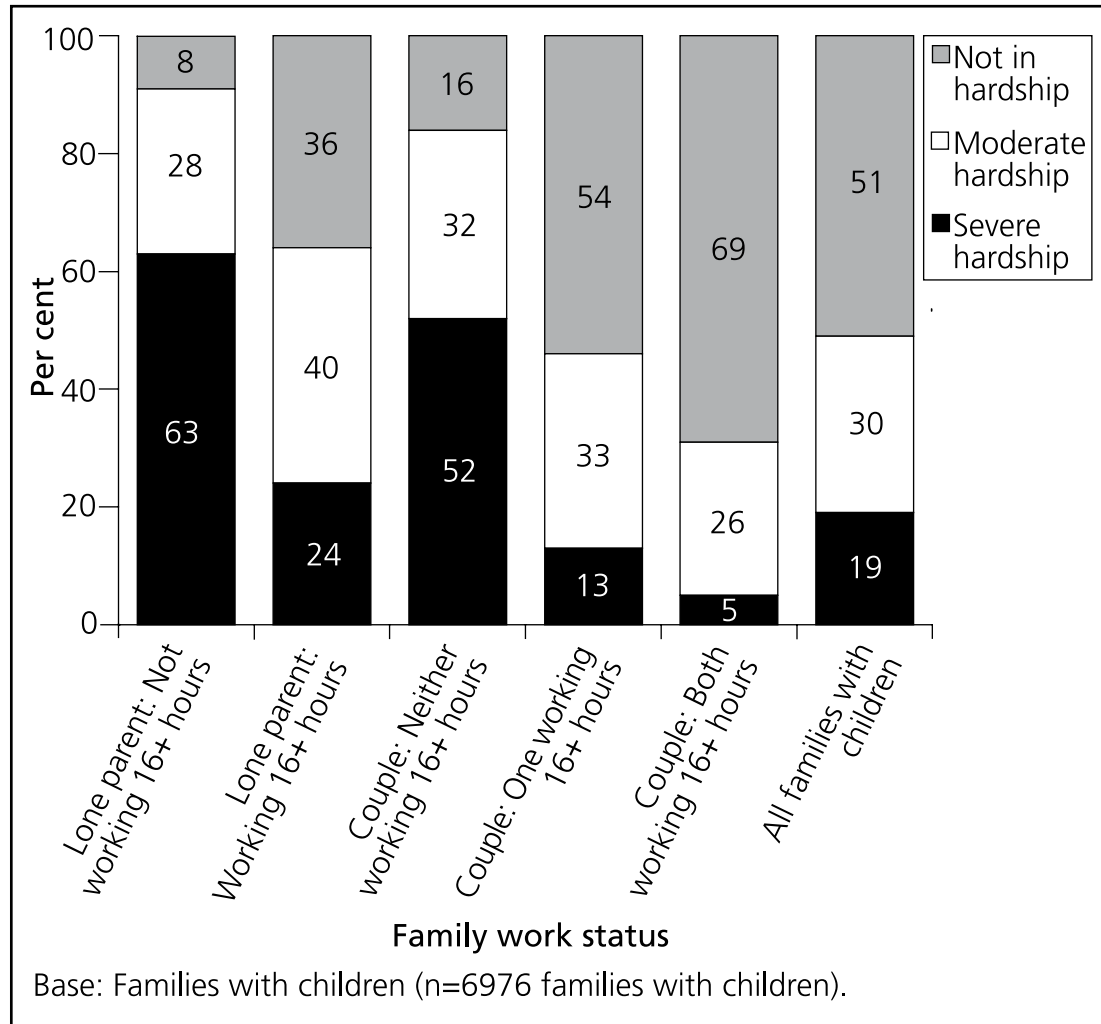
Scores on the living standards index range from zero to nine. Following Vegeris and McKay's (2002) methodology we identify three categories of hardship:

- not in hardship (scored zero on the living standards index);
- moderate hardship (scored one or two); and
- severe hardship (scored three or more).

However, as Vegeris and McKay note, these labels have been devised for ease of reference and for group comparisons. They are not meant to imply an exhaustive standard of family hardship, and it is not to be interpreted that a score of zero on this index is equal to a good, or even adequate, standard of living. Vegeris and McKay did find that levels of hardship were closely linked to levels of income, with each of the nine components of the overall hardship measure associated with lower levels of income. They also found that on average, for both lone parent and couple families, the differences in income between those families in moderate hardship and those not in hardship were far greater than the differences in the incomes between families in moderate and severe hardship.

According to this measure of living standards, almost one in five (19 per cent) families with children experienced severe hardship. A further 30 per cent of families experienced moderate hardship. This means that half (51 per cent) of families did not experience hardship on any of the nine living standards indicators.

Figure 2.6 Living standards hardship by family work status, FACS 2005



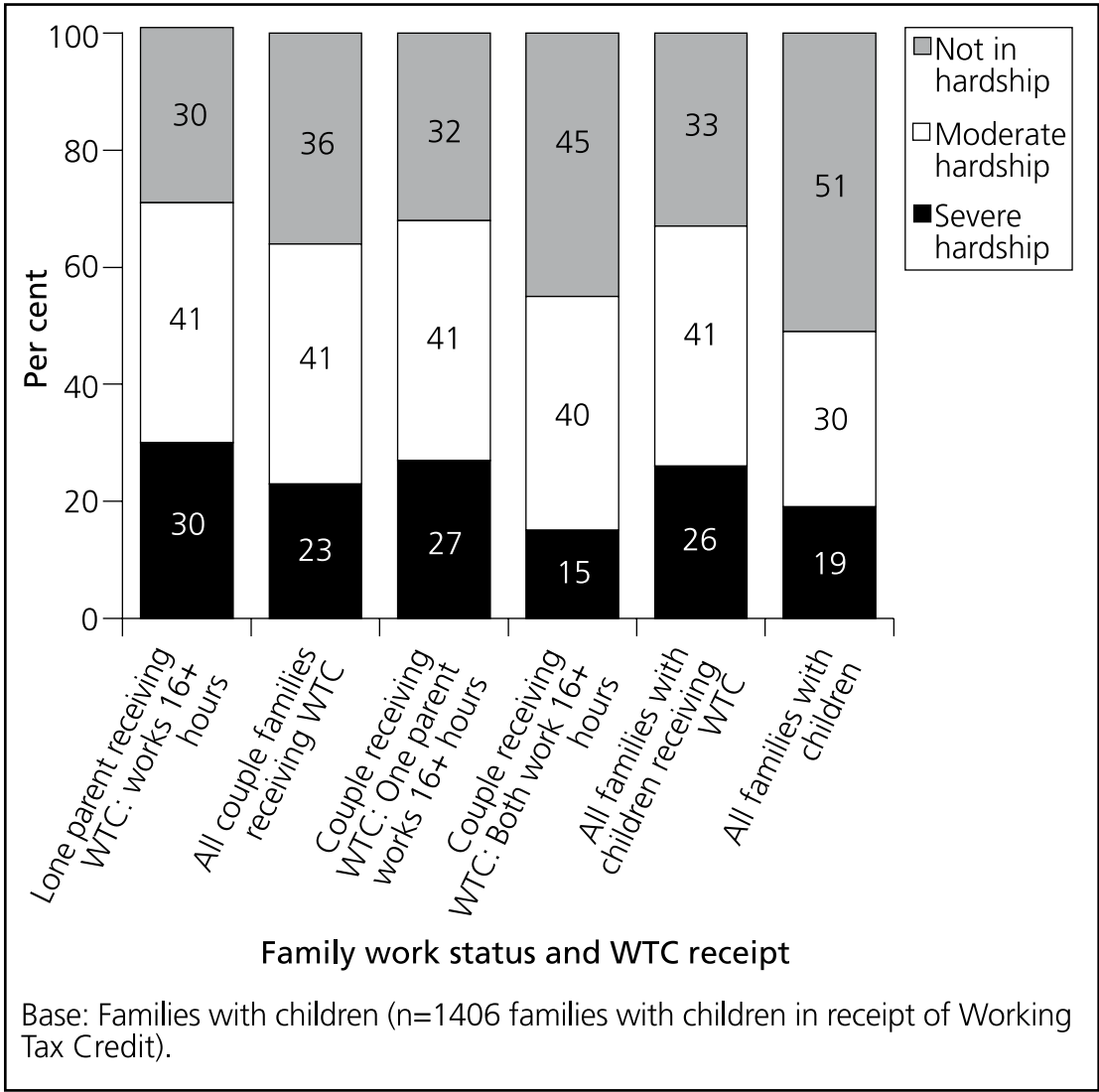
It is clear from Figure 2.6 that non-working families had the highest rates of hardship (63 per cent of non-working lone parent families and 52 per cent of workless couple families were in severe hardship). Lone parent families working 16 or more hours per week had a higher rate of severe hardship than couple families with one parent working 16 or more hours a week (24 per cent compared with 13 per cent). If a couple family had both parents working the risk of severe hardship reduced considerably (five per cent).

Figure 2.7 investigates living standards hardship for families with children in receipt of WTC according to work status. As with income poverty, the general pattern from Figure 2.7 is that the more hours a family worked, the more likely the family was to avoid hardship.

The main difference from the analysis of income poverty rates (Figure 2.5) is that lone parent families recorded higher rates of hardship than other working families – 30 per cent of working lone parent families faced severe hardship, compared to 27 per cent of sole-working couple families, and 15 per cent of dual-earning couple families (for all families that were in receipt of WTC). Working lone parent

families did not experience the highest rates of income poverty (13 per cent) – this was seen for single-earner couple families (29 per cent) (for all families that were in receipt of WTC). There are, of course, other factors that can impact on hardship, such as spending patterns, family size and tenure. The analysis in Figure 2.7 only looks at the relationship between employment status, working hours, WTC receipt, and hardship.

Figure 2.7 Living standards hardship according to work status for families in receipt of Working Tax Credit, FACS 2005



Further analysis of the specific items that families in receipt of WTC went without (Table 2.1) revealed that families in hardship were most likely to go without leisure and consumer durables items, rather than food or clothing. For example, one-fifth (19 per cent) of all working families in receipt of WTC were in hardship for food items and 30 per cent were in hardship on the consumer durable goods measure.

Table 2.1 Specific living standards hardship rates for families receiving Working Tax Credit by family work status, FACS 2005

Family work status	Food deprivation	Consumer deprivation	Clothing deprivation	Leisure deprivation	<i>Base</i>
Lone parent receiving WTC: Works 16+ hours	20	34	29	30	571
All couple families receiving WTC	19	27	25	29	593
Couple receiving WTC: One parent works 16+	20	31	29	33	385
Couple receiving WTC: Both work 16+	15	19	15	20	195
All families with children receiving WTC	19	30	27	29	1,181
All families with children	20	20	20	20	5,978

Note: Deprivation is defined as the 20 per cent of families with the highest RMDS (per hardship measure). See Methodology Box 2.3 above for more details.

Only a small proportion of families with children receiving WTC were in moderate or severe living standards hardship and income poverty. One in seven (14 per cent) families who received WTC experienced both forms of disadvantage. This was not different to the rate for all families with children, regardless of whether they received WTC or not – however as we have seen earlier, families receiving WTC were more likely to face hardship, especially lone parent families. Single-earner couple families were the group of families most likely to experience both income poverty and hardship (22 per cent).

Table 2.2 Combined income poverty and hardship rates for families receiving WTC by family work status, FACS 2005

Family work status	Not in income poverty or hardship	In income poverty but not in hardship	In hardship but not in income poverty	In income poverty and hardship	<i>Base</i>
Lone parent receiving WTC: Works 16+ hours	27	3	60	11	571
All couple families receiving WTC	30	5	47	17	593
Couple receiving WTC: One parent works 16+	25	7	46	22	385
Couple receiving WTC: Both work 16+	42	3	50	6	195
All families with children receiving WTC	28	4	53	14	1,181
All families with children	45	4	38	14	5,978

2.4 Summary

This chapter has concentrated on the relationship between paid work and the living standards of families with children, using the 2005 wave of FACS. The chapter presents some key findings on the incidence of work and WTC receipt among families with children.

- Over half (53 per cent) of lone parent families and the vast majority (94 per cent) of couple families had at least one parent who worked for 16 or more hours per week.
- Two-thirds (65 per cent) of working lone parent families were in receipt of WTC.
- Of working couple families, one quarter (25 per cent) of single-earner families and one in ten (nine per cent) dual-earner families were receiving WTC.
- Of families in receipt of WTC, lone parent families and single-earner couple families received similar amounts of tax credits on average (£101 and £98).
- Two-earner couple families received £65 on average.

The factors that make a family eligible for WTC are complex and hence it is not possible to use the FACS data to make comparisons between families in receipt of WTC and families not receiving but eligible for WTC. Families who do not receive WTC will typically have a higher income than the income of families receiving WTC. However, it is still useful to categorise families according to their receipt of WTC to help understand their levels of income poverty and hardship.

- Almost one-fifth (19 per cent) of working families with children in receipt of WTC had an income beneath the income poverty threshold.
- A further 13 per cent of working families with children in receipt of WTC had an income close to the income poverty threshold. This suggests that despite being in work, and receiving an income supplement via in-work tax credits, approximately a third of families with children were living in income poverty, or close to the income poverty threshold.
- Furthermore, a quarter (26 per cent) of working families with children in receipt of WTC experienced severe living standards hardship. In addition, one in seven (14 per cent) experienced both income poverty **and** severe living standards hardship.
- Of families in receipt of WTC, single-earner couple families were the group of families most likely to experience both income poverty and hardship (22 per cent).

The analysis of FACS suggests that rates of income poverty and hardship vary according to family type. Of families receiving WTC, couple families had a higher risk of income poverty than lone parent families. The reverse is true for hardship.

There is little research on the effects of moving into work on living standards. The following chapter will utilise the longitudinal element of FACS to explore how well the income and living standards of families hold up or improve following a transition from out-of-work benefits into paid work.

3 The impact of moving into work on income and living standards

This chapter takes advantage of the longitudinal element of the Families and Children Study (FACS) to observe what happens to family income and living standards in the first and second year after a move into full-time work (of 16 or more hours per week). The chapter also considers income and living standards for families that did and did not receive in-work tax credits after a move into work.

FACS interviews the same families on an annual basis, and by collecting comparable information on these families it is possible to observe circumstances and behaviour in a dynamic context. This means that it is possible to observe the association between an event (such as a movement into work) and a change in circumstances (such as an increase in living standards).

Methodology box 3.1 – Utilising the longitudinal element of FACS

This report uses FACS to observe what happens to families one and two years after a movement into work of 16 or more hours per week. There are slightly different methods utilised to observe families over one- and two-year periods. To look at one-year changes in circumstances of families, observations from the same families are pooled together from consecutive waves of FACS. Five waves of FACS are used for this analysis, covering the years 2001 to 2005, and producing a total of 24,117 year-on-year transitions from 8,548 different families. Families in the study for more than two consecutive years contribute more than one year-on-year transition to this analysis.

Continued

Three waves of FACS were used to look at two-year changes in the circumstances of families with children. This analysis uses five waves of FACS data, covering the period from 2001 to 2005. Families who provided data in three consecutive waves – 2001, 2002 and 2003; or 2002, 2003 or 2004; or 2003, 2004 and 2005 are included in the analysis. In total almost 5,000 (4,992) families took part in three consecutive waves of FACS over the period from 2001 to 2005. In carrying out this analysis 12,540 transitions were used, from 5,593 different families with children who have participated in three consecutive waves of FACS since 2001¹⁰. The table below illustrates how family participation in FACS contributes to the longitudinal analysis undertaken in this report.

Examples of family participation over five waves of FACS (✓ = took part in that wave, x = did not take part in that wave)					Number of contributions to longitudinal analysis	
2001	2002	2003	2004	2005	1 year changes	2 year changes
✓	x	✓	x	✓	0	0
✓	✓	x	x	x	1	0
✓	✓	x	✓	✓	2	0
x	x	✓	✓	✓	2	1
x	✓	✓	✓	✓	3	2
✓	✓	✓	✓	✓	4	3

3.1 The impact on income and living standards in the first year following a move into work

This section investigates what happens to families in the first year of moving into work. It begins by examining the rates of movements into work over consecutive waves of FACS. It should be noted that this analysis was carried out for families that maintained the same family status (that is, lone parent or couple) over this period.

¹⁰ The panel was defined as a family who participated in three consecutive years of FACS and also had a dependent child in each of these three years. However, the panel excludes any respondent who was self-employed at any one of the three waves.

Figure 3.1 summarises the key transitions under investigation in this section. The three types of transitions of interest are:

- families who remained out of work at both interviews;
- families who moved into work and received in-work tax credits; and
- families who moved into work and did not receive in-work tax credits.

Figure 3.1 Labour market and in-work tax credit transitions

	First observation (time t)		One year later (time t+1) ¹
Transition 1.	Out of work	➔	Out of work
Transition 2.	Out of work	➔	In work and in receipt of in-work tax credits
Transition 3.	Out of work	➔	In work and not in receipt of in-work tax credits
Note: Out of work means not working, or working for less than 16 hours per week. In work means working for 16 or more hours per week.			
¹ Interviews for FACS are carried out between September and December of each year. It is therefore possible that the duration between interviews is slightly longer, or shorter, than one year.			

It should be noted that FACS interviews are carried out annually and hence family work status can change between interviews. These temporary work transitions are not captured in this analysis.

Methodology box 3.2 – Comparing the receipt and amount of in-work tax credits over time

The longitudinal analysis undertaken in this and the following chapter uses data from five waves of FACS, covering the period from 2001 to 2005. During this period there was a change in the administration of tax credits – in 2003 Working Tax Credit (WTC) and Child Tax Credit (CTC) replaced Working Families Tax Credit (WFTC). To take account of this change, the analysis assumes that the receipt of WFTC is equivalent to the receipt of WTC. As the table below shows, the percentage of families in receipt of in-work tax credits (whether WFTC or WTC) varied very little over the period. The increase in the percentage of dual-earning couple families receiving WTC can be explained by the more generous eligibility criteria for WTC compared with WFTC.

Percentage of families with children in receipt of in-work tax credits, FACS 2001-2005

	2001	2002	2003	2004	2005
Family work status	WFTC	WFTC	WTC	WTC	WTC
Lone parent: Not in work or works <16 hours/week	3	4	2	1	2
Lone parent: Works 16+ hours/week	67	68	67	66	65
Couple: Both not in work or work <16 hours/week	5	8	7	6	6
Couple: One works 16+ hours/week	25	27	24	24	25
Couple: Both work 16+ hours/week	7	8	13	11	9
All families with children	19	21	21	21	21

The following table compares the average amount of in-work tax credit received by families with children over the period. The amount of WFTC is compared with the combined receipt of WTC and CTC for families in receipt of WTC. Again, the table suggests that it appears appropriate to compare WFTC with the combined WTC and CTC total after 2003. The rise in average amounts received in 2003 is accorded to problems with the implementation and over-payment of new tax credits in the first year of introduction. From 2004 the average amount of WTC received has fallen back to comparable amounts of WFTC pre-2003.

Continued

Total (mean) amount of tax credits received by those in receipt of in-work tax credits, FACS 2001-2005

	2001	2002	2003	2004	2005
Family work status	WFTC	WFTC	WTC + CTC	WTC + CTC	WTC + CTC
Lone parent: Not in work or works <16 hours/week	£79	£78	£115	£99	£89
Lone parent: Works 16+ hours/week	£109	£95	£112	£99	£101
Couple: Both not in work or work <16 hours/week	£92	£93	£110	£95	£88
Couple: One works 16+ hours/week	£98	£104	£152	£101	£98
Couple: Both work 16+ hours/week	£61	£67	£78	£70	£65
All families with children	£84	£83	£104	£90	£84

Note: Amounts of tax credits have been updated to 2005 prices using the all-items Retail Price Index.

For more information about the RPI see:

<http://www.statistics.gov.uk/cci/nugget.asp?id=21>

3.1.1 Movements into work and in-work support

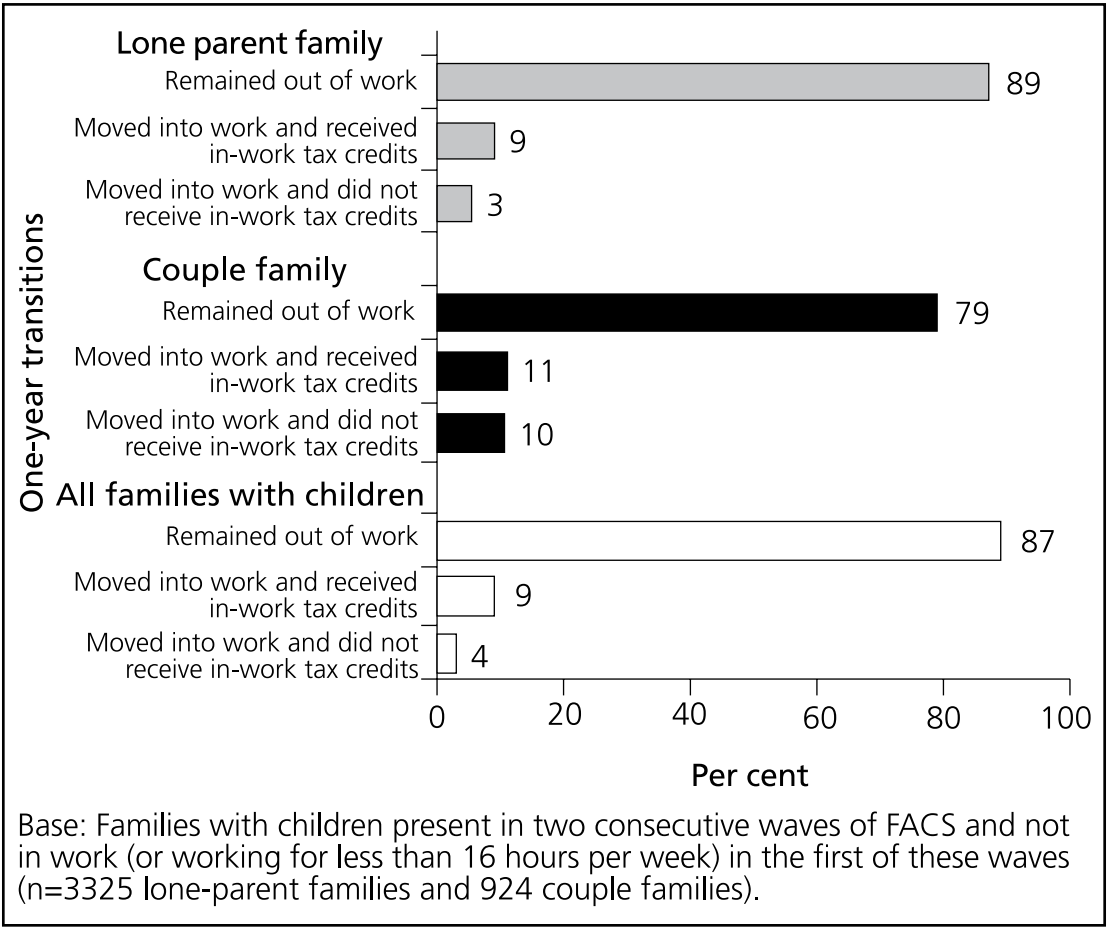
Figure 3.2 shows that relatively few families who were out of work (or working less than 16 hours per week) moved into work of 16 or more hours per week in the subsequent wave of FACS. Only 13 per cent of families had a parent, or parents, who made this transition into work. Couple families were almost twice as likely as lone parent families to move into work (21 per cent compared with 12 per cent).

Figure 3.2 also shows whether the family was in receipt of in-work tax credits following this move into work. On average, three-quarters of families that moved into work also received in-work tax credits (nine per cent out of 13 per cent). The likelihood of receiving these varied according to family type. Three-quarters of lone parent families who moved into work also received in-work tax credits (nine per cent out of 12 per cent who moved into work). Couple families were much less likely to be in receipt; only one half of those who moved into work received in-work tax credits (11 per cent, out of 21 per cent who moved into work).

It should be noted that the group of families not receiving in-work tax credits includes two distinct groups of families. On the one hand there are those who have low incomes and are eligible for in-work tax credits but who are not in receipt. On the other hand there are high-earning families who are not eligible for in-work

tax credits. As the factors that make a family eligible for WTC are complex it is not possible to use the FACS data to separately identify these two groups of families. Therefore it is not meaningful to use this FACS data to make direct comparisons between families in receipt of in-work tax credits and those not in receipt.

Figure 3.2 Movements into work and receipt of in-work tax credits, one-year transitions from FACS 2001-2005



3.1.2 Changes in income

Figure 3.3 (for lone parent families) and Figure 3.4 (for couple families) show changes in income poverty status over a one-year duration using two consecutive years of FACS data. Figure 3.3 shows that almost half (46 per cent) of lone parent families who moved into work moved out of income poverty. Half (49 per cent) of lone-parent families who moved into work and began receiving in-work tax credits left income poverty. The respective figure for those who started work but did not receive them was 38 per cent.

The relatively high proportion (29 per cent) of lone parent families who moved into work, did not receive in-work tax credits, and remained in income poverty suggests two things; first that some working lone parent families who did not receive in-work tax credits were working in low-paid jobs that means their family income was not over the income poverty threshold, and secondly, that some lone parent families were not claiming the in-work tax credits that they were entitled to, which could have helped them escape from income poverty.

Figure 3.3 The impact of transitions into work and in-work tax credit receipt on income poverty dynamics, lone parent families, one-year transitions from FACS 2001-2005

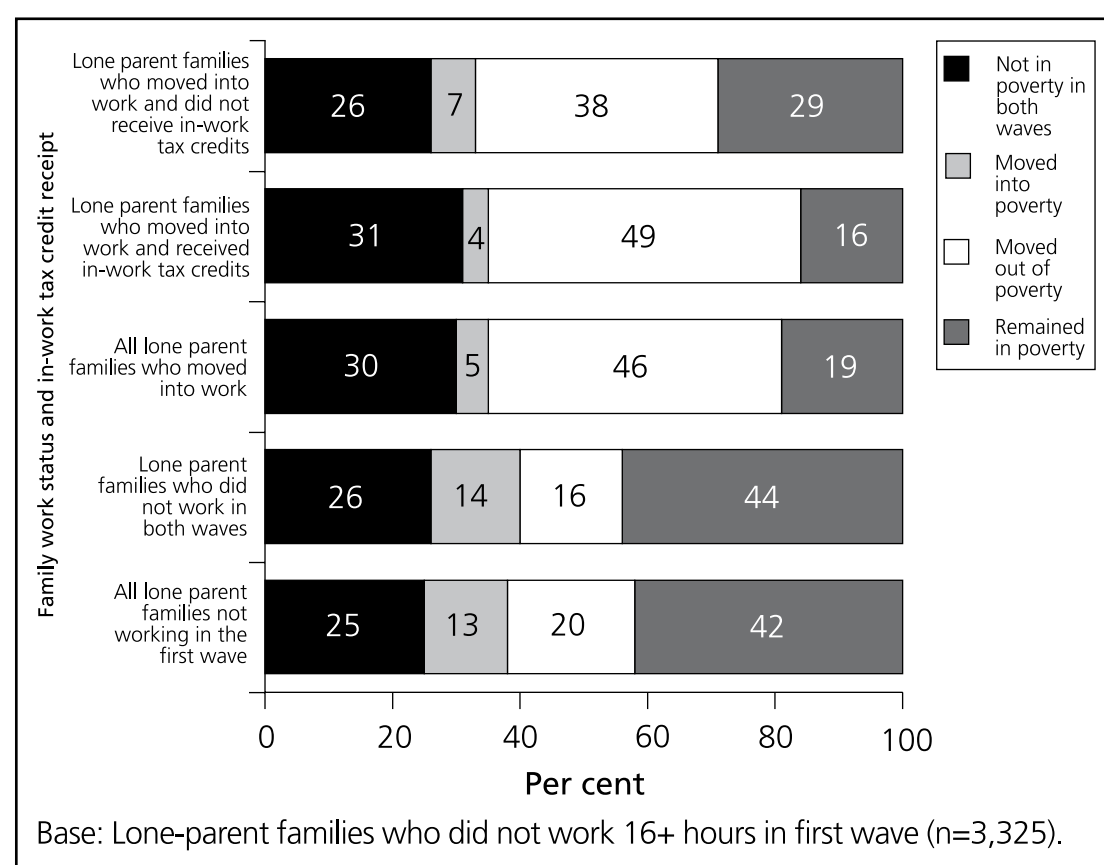
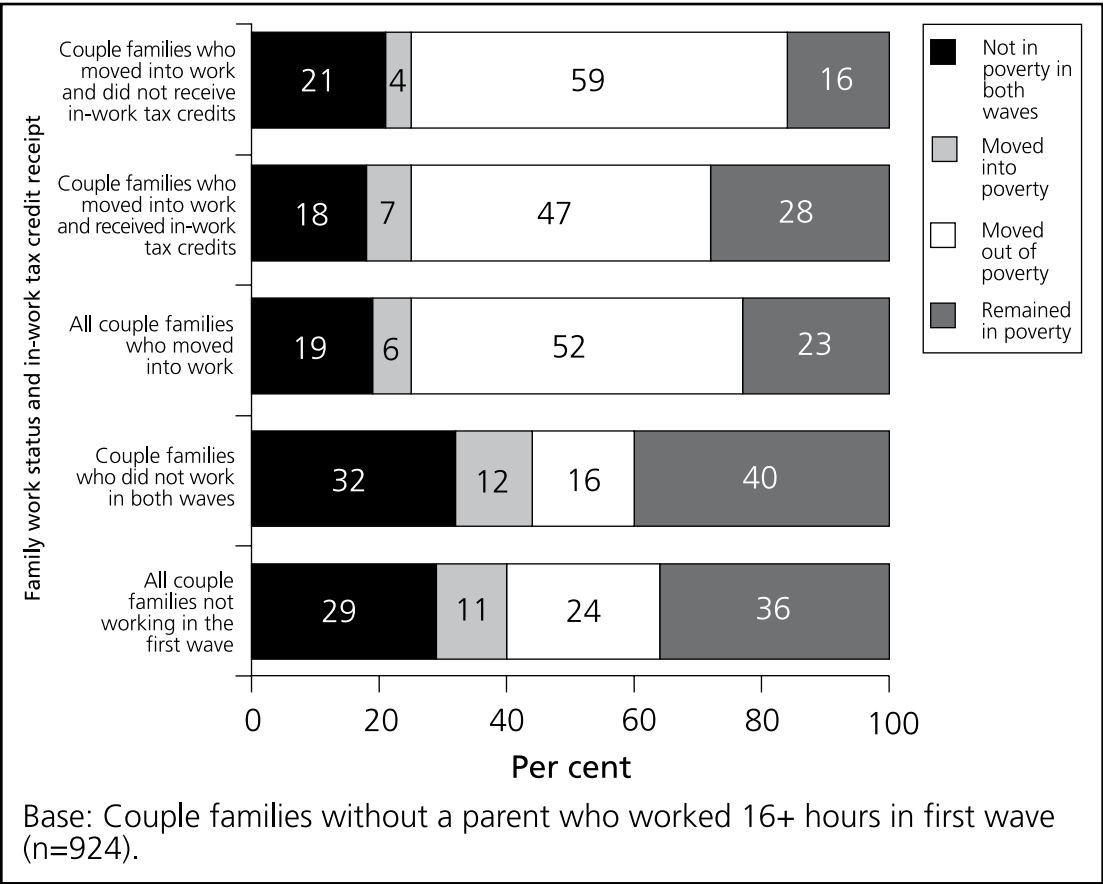


Figure 3.4 presents a similar analysis for couple families. Couple families who had a parent who moved into work were more likely to escape income poverty than lone parent families in a similar situation. Just over half (52 per cent) of couple families where an adult started to work left income poverty, compared with 46 per cent of lone parent families. However, and contrary to lone parent families, couple families where an adult started to work and receive in-work tax credits were less likely to move out of income poverty than those not in receipt (47 per cent compared with 59 per cent). Nearly half (47 per cent) of couple families who moved into work and received in-work tax credits moved out of income poverty. The corresponding figure for couple families who did not receive in-work tax credits was 59 per cent. In addition, seven per cent of couple families who moved into work and received in-work tax credits moved into income poverty. The respective figure for those who did not receive in-work tax credits was four per cent.

Figure 3.4 The impact of transitions into work and in-work tax credit receipt on income poverty dynamics, couple families, one-year transitions from FACS 2001-2005



This analysis has shown that a significant proportion of lone parent and couple families moved out of income poverty if they moved into work. However, moving into work and receiving in-work tax credits appears to have more impact on leaving income poverty for lone parent than couple families. This is confirmed in Table 3.1, which records income poverty ‘exit rates’ by looking only at families who were in income poverty in the first wave¹¹.

Overall, taking all families not in work at the first wave, the exit rates from income poverty were higher for couple than lone parent families (40 per cent and 32 per cent). Income poverty exit rates were identical for all families that moved into work (70 per cent). However, when looking at families that moved into work and received in-work tax credits, we see that lone parent families are more likely than couple families to exit from income poverty (75 per cent and 62 per cent respectively).

¹¹ The poverty exit rate is calculated by dividing the number of families in poverty at the first observation by the number who were not in poverty at the second observation, one year later. In Table 3.1 this is converted into a percentage.

Table 3.1 The impact of transitions into work and in-work tax credit receipt on income poverty exit, one-year transitions from FACS 2001-2005, income poverty exit rate

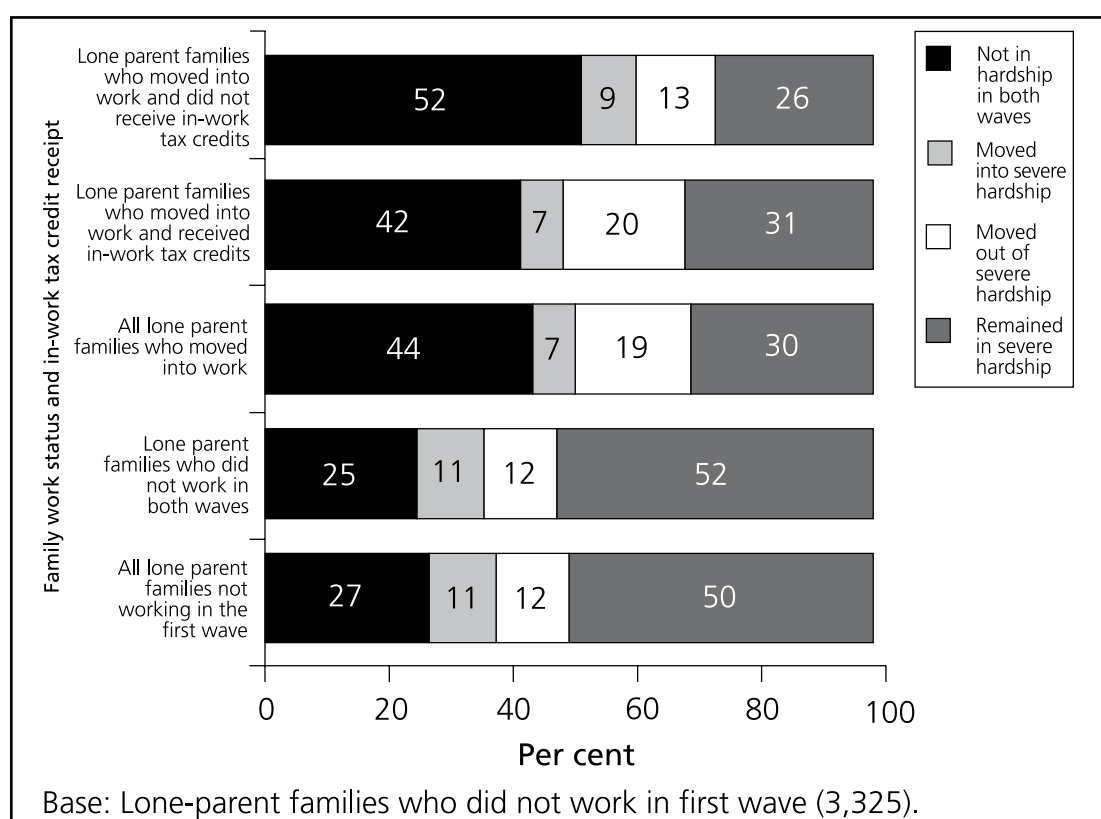
	Lone parent %	Couple %
Families who moved into work and did not receive in-work tax credits	57	78
Families who moved into work and received in-work tax credits	75	62
All families who moved into work	70	70
All families who did not work at both observations	27	29
All families not working at the first observation	32	40

Base: Families with children not in work and in income poverty at the first observation (n=2033 lone-parent families and 552 couple families).

3.1.3 Changes in living standards

The following section explores the impact of a move into work on the living standards of families. Figure 3.5 shows that only one-fifth (19 per cent) of lone-parent families that moved into work had also moved out of hardship one year later. A fifth (20 per cent) of lone-parent families who moved into work and also started to receive in-work tax credits left hardship. Thirteen per cent of lone parent families who moved into work and did not receive them made a similar transition.

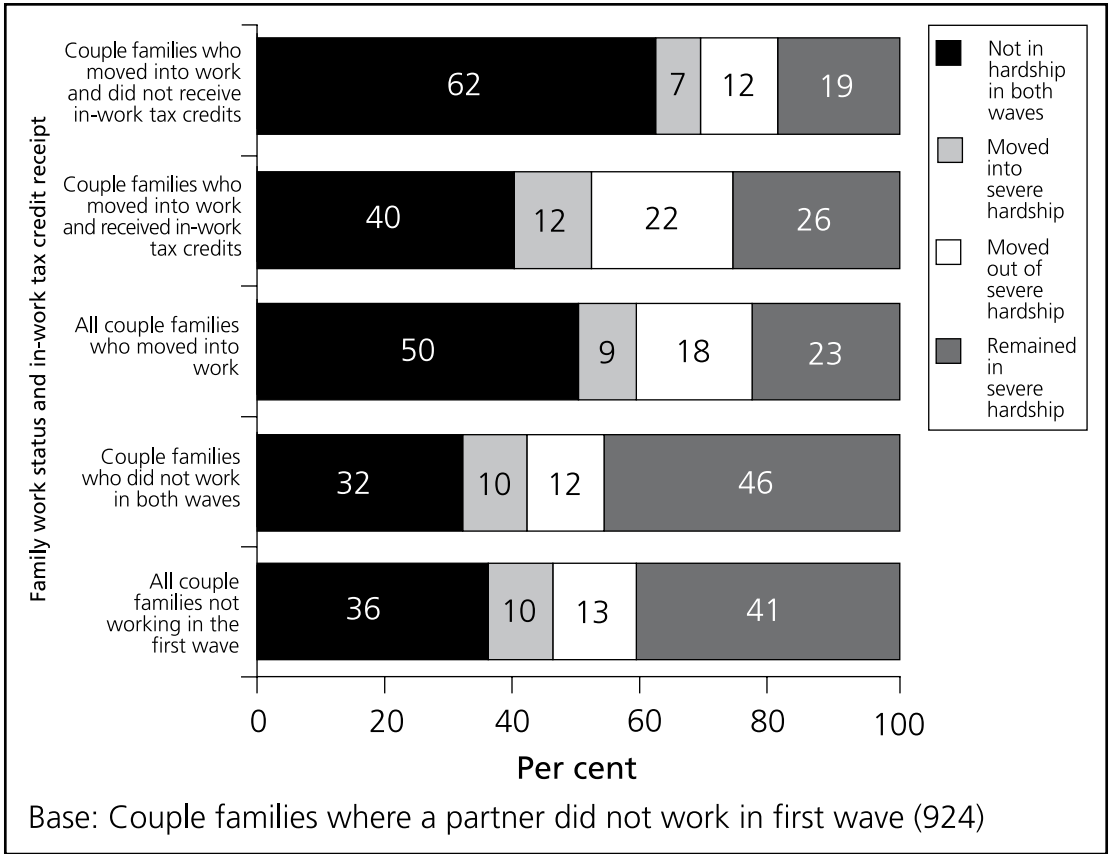
Figure 3.5 The impact of transitions into work and in-work tax credit receipt on hardship dynamics, lone parent families, one-year transitions from FACS 2001-2005



Over two-fifths (44 per cent) of lone parent families who moved into work were not in hardship in both waves. This may be because they moved into and out of work intermittently, and although they saw immediate changes in their income, the impact on hardship was less pronounced. Indeed, previous work on the dynamics of deprivation by Berthoud *et al.* (2004) found that the risk of hardship was related to the number of previous years spent in income poverty. Linked to this finding is a suggestion that those not in hardship were more likely to move into work and those in hardship were more likely to remain out of work. As will be seen in Figure 3.6, this trend exists for both couple and lone parent families, but appears stronger for lone parent families.

Figure 3.6 shows that just under one-fifth (18 per cent) of couple families where an adult started to work moved out of hardship. This was comprised of a fifth (22 per cent) of couple families who moved into work and received in-work tax credits, and a tenth (12 per cent) of couple families who moved into work and did not receive them. As mentioned above, the relationship between hardship and work suggests that families who avoided hardship were more likely to move into work (and that families in hardship were more likely to remain out of work). However, this relationship was not as strong as for lone parent families.

Figure 3.6 The impact of transitions into work and in-work tax credit receipt on hardship dynamics, couple families, one-year transitions from FACS 2001-2005



Overall, it has been observed that of those families that moved into work over a one-year period, only a small minority (about one-fifth) moved out of living standards hardship over this time. Families were more likely to move out of income poverty in the year after starting work – approximately one half of families exited income poverty (46 per cent of lone parent families and 52 per cent of couple families – see Figures 3.3 and 3.4).

A fifth (22 per cent) of couple families who moved into work and received in-work tax credits moved out of severe hardship over one year. The previous section shows that just under half (47 per cent) of these families moved out of income poverty over the same period.

Twelve per cent of couple families who moved into work and did not receive in-work tax credits moved out of severe hardship over one year, compared with the 59 per cent of this group who moved out of income poverty over the same period. For these families, the number escaping poverty was higher than those escaping hardship because hardship was much more prevalent among families not claiming in-work tax credits.

This analysis has shown that around one fifth of lone parent and couple families moved out of hardship if they moved into work. Table 3.2 presents hardship exit rates for families in hardship, and not in work, in the first wave of FACS12.

Table 3.2 The impact of transitions into work and in-work tax credit receipt on hardship exit, one-year transitions from FACS 2001-2005: hardship exit rate (%)

	Lone parent	Couple
Families who moved into work and did not receive in-work tax credits	[34]	[38]
Families who moved into work and received in-work tax credits	39	[45]
All families who moved into work	38	42
All families who did not work at both observations	18	21
All families not working at the first observation	20	24

Base: Families with children not in work and in severe hardship at the first observation (n=2065 lone-parent families and 500 couple families).

Note: Percentages in brackets are based on a small sample size and hence should be treated with caution.

Overall, taking all families not in work at the first wave, the exit rates from (severe) hardship were similar for couple and lone parent families (24 per cent and 20 per cent). The sample sizes make robust analysis difficult (and hence these results should be treated with caution) – however, the general picture is that couple families had slightly higher hardship exit rates than lone parent families.

¹² The hardship exit rate is calculated by dividing the number of families in severe hardship at the first observation by the number who were not in severe hardship at the second observation, one year later. In Table 3.2 this is converted into a percentage.

3.1.4 **The factors that influence the improvements to income and living standards**

To explore the role that employment status and in-work tax credits play in improving income and living standards over the first year following a movement into work, this report uses logistic regression analysis to unravel which characteristics are related to a move out of income poverty, and a move out of hardship, when holding other, potentially confounding, characteristics constant¹³.

Methodology box 3.3 – Logistic regression analysis

Logistic regression predicts a discrete outcome, such as a movement out of income poverty, from a set of variables, or characteristics of families in this analysis. The variables have a number of categories and each category is interpreted in relation to a reference category, shown in **bold** below. In many statistical models analysts choose the largest category to be the reference category, which might be good for maximising the robustness of estimates or because it is intuitive to compare other groups to the majority group (Gayle and Lambert, 2006). This approach has been taken for the majority of variables here, presented below.

WTC/WFTC receipt over one year	Not in receipt in either wave Started to receive at second wave Stopped receiving at second wave In receipt in both waves
Work status over one year	Not working Started to work in second wave

Continued

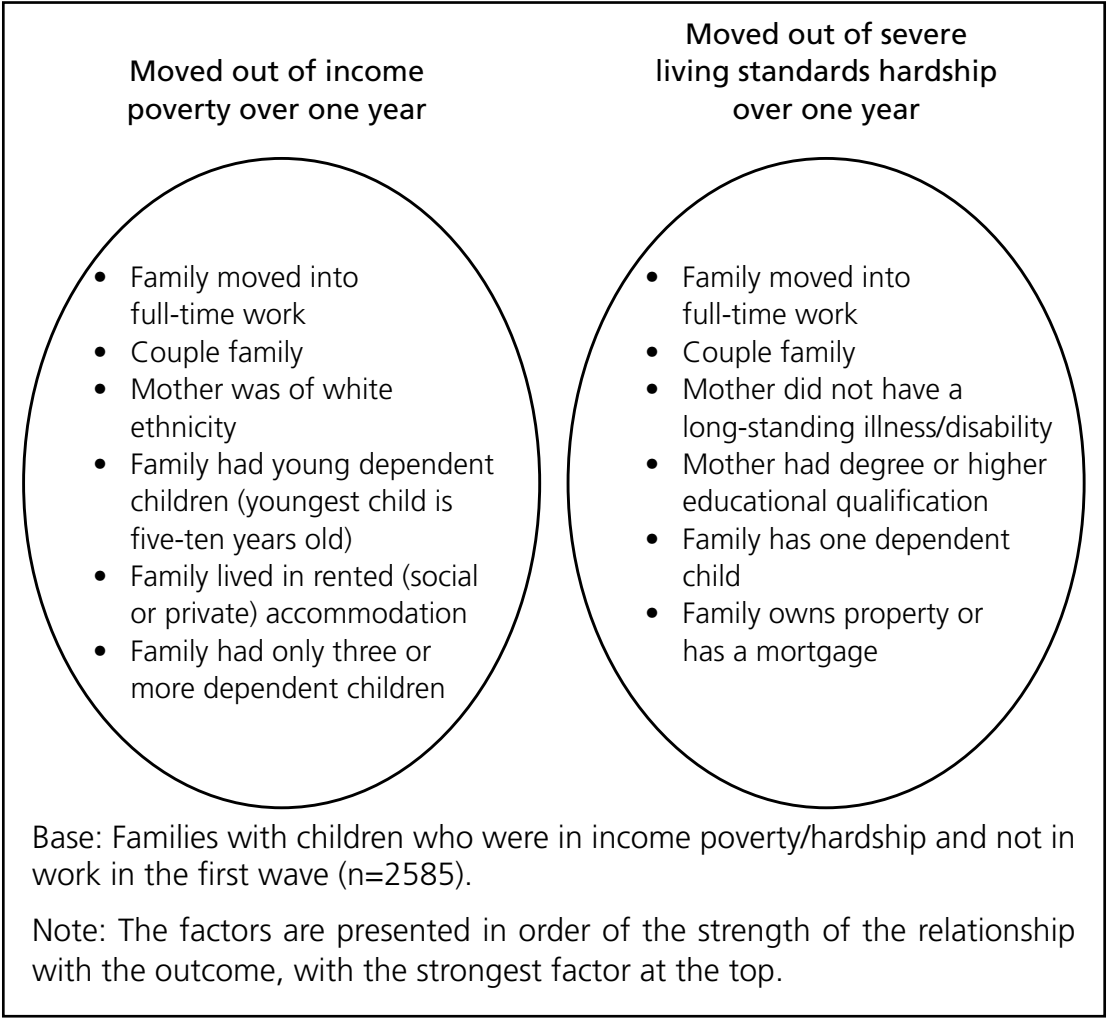
¹³ Given that the analysis is based on pooling consecutive waves of panel survey data, a problem arises in how to account for the statistical correlation between observations from the same family. The statistical correlation in this case refers to the residual or error terms in the model. With panel data there are likely to be unmeasured individual factors that lead to a positive correlation over time between error terms for the same subject. Ignoring this residual correlation, which the standard regression models do, can lead to incorrect or inefficient estimates of the regression coefficients. To address this problem an alternative model known as a random effects model is used (using the random effects logistic regression model in STATA via the xtlogit procedure). Generally, random effects models take into account the correlation by partitioning the total residual for a subject at a particular wave into a subject-specific random term (which is constant over time) plus a residual that varies randomly over time (Rabe-Hesketh and Everitt, 2004). The first component is often said to represent the influence of unmeasured individual factors on the dependent variable. By accounting for this correlation, random effects models are able to produce efficient estimates (assuming that the model is correctly specified).

Family type	Lone parent Couple
Highest academic qualification	None GCSE A-level/SCE Higher grades First degree Higher degree Other
Tenure	Owner/mortgage Social tenant Private tenant Other
Long-standing illness	Not ill in either wave Became ill in second wave Got better in second wave Ill in both waves
Age of youngest child	0-4 years 5-10 years 11-15 years 16-18 years
Number of dependent children	1 child 2 children 3 or more children
Ethnic group of mother	White Black Asian Other
Notes:	
The analysis also controlled for region of residence using the nine Government Office regions and Scotland and Wales.	
Information that refers to circumstances at a point-in-time (e.g. tenure) is taken from the first year of observations.	
The analysis only includes families that did not change relationship type (lone parent or couple) across the two observations.	
The Wald test is used to test the significance of the explanatory variables in the logistic regression analysis. The magnitude of the Wald statistic is used to determine the relative strength of each explanatory variable. The diagrams that represent the results of the logistic regression analysis present the factors in order of the strength of the relationship with the outcome, with the strongest factor at the top.	

Figure 3.7 presents the family characteristics and events that were significantly associated with a move out of income poverty, and out of living standards hardship, the first year following a movement into work. The factors are presented in order of impact on the likelihood of a family moving out of income poverty or hardship (see Methodology box 3.3 above for more information).

The results of the analysis also support much of what has been observed in the preceding analysis – that is, that those families with an adult who moved into full-time employment were most likely to leave income poverty or living standards hardship over one year.

Figure 3.7 Factors associated with a movement out of income poverty and severe living standards hardship over one year¹⁴



¹⁴ Figure 3.7 only shows the significant factors in the regression model. For information on all the variables in the model please see the tables in Appendix B.

Other key findings from the multivariate analysis:

- Couple families were more likely to escape income poverty or hardship than lone parent families.
- Families where the mother did not have a long-standing illness or disability were more likely to escape hardship than a family where the mother did not.
- Large families were more likely to escape income poverty, perhaps as a result of older children leaving home, meaning that there is more income to spread around fewer family members. Analysis by Iacovou and Berthoud (2006) showed that large families become less poor as older children leave home, although their income poverty rates were still high. This was mainly because they were also likely to have other older children, which have a higher weighting on the equivalence used to calculate income poverty rates, as they are judged to incur more expenditure than younger children – although these children did not attract higher rates of family benefit. Conversely, families with fewer dependent children were more likely to leave hardship. Larger families are more expensive to maintain and hardship is generally associated with larger families.
- Families with younger children (primary school age) were more likely than families with older children to leave income poverty.
- Families in rented accommodation, particularly privately rented accommodation, were more likely to move out of income poverty¹⁵, while those that owned or were buying their home were more likely to escape hardship.

In-work tax credit receipt was not statistically significant in predicting whether families would leave income poverty or hardship. This is because in the regression model the relationship between moving into employment and leaving income poverty (or hardship) dominated that of receiving in-work tax credits and leaving income poverty (or hardship). When receipt of in-work tax credits was forced into the regression model the results suggest that there is some evidence that this had an association with exiting income poverty or hardship, as families who began receiving in-work tax credits in the first year of work were more likely to escape income poverty or hardship than those who did not receive in-work tax credits in either wave. However, it should be reiterated that the impact of in-work tax credits is nullified once employment status is taken into account.

3.2 The impact on income and living standards two years after a move into work

This section explores the longer-term effects of work on the income and living standards of families with children. To do this families who took part in three consecutive years of FACS, covering a two-year time period, are examined. This analysis begins by mapping out the work transitions for families without a parent in work (of 16 hours or more per week) in the first of these three observations.

¹⁵ Analysis by Hills (2007) has shown that people in privately rented accommodation are more likely than those in social rented accommodation to be in work.

Figure 3.8 summarises the key transitions under investigation in this section. The two types of transition of interest are:

- families who remained out of work; and
- families who moved into work and remained in work for two years.

Figure 3.8 Labour market transitions

	First observation (time t)		One year later (t+1) ¹		One year later (t+2)
Transition 1.	Out of work	➔	Out of work	➔	Out of work
Transition 2.	Out of work	➔	In work	➔	In work
Note: Out of work means not working or working for less than 16 hours per week. In work means working for 16 or more hours per week.					
¹ Interviews for FACS are carried out between September and December of each year. It is, therefore, possible that the duration between interviews is slightly longer, or shorter, than 12 months.					

There are not enough families in FACS who moved into and remained in work for two years to allow their transitions to be categorised according to whether the family was also in receipt of in-work tax credits (see Figure 3.9). Hence the focus of this analysis is the role that a sustained movement into work plays in improving and maintaining income and living standards. Furthermore, given the general stability of family labour market status over time, the sample sizes of some of the transitions of interest are quite small and hence some of the findings of this chapter should be treated with caution. The sample sizes are detailed in the footnote of the relevant figures (these represent the number of transitions observed in the FACS data rather than the actual number of families interviewed – a family contributes one transition for each consecutive pair of interviews).

3.2.1 Movements into work and in-work support

Figure 3.9 shows the number of work transitions over a two-year period for families who initially had no parent in work. Again, this analysis is limited to families whose family type status (couple or lone parent) did not change over the period¹⁶.

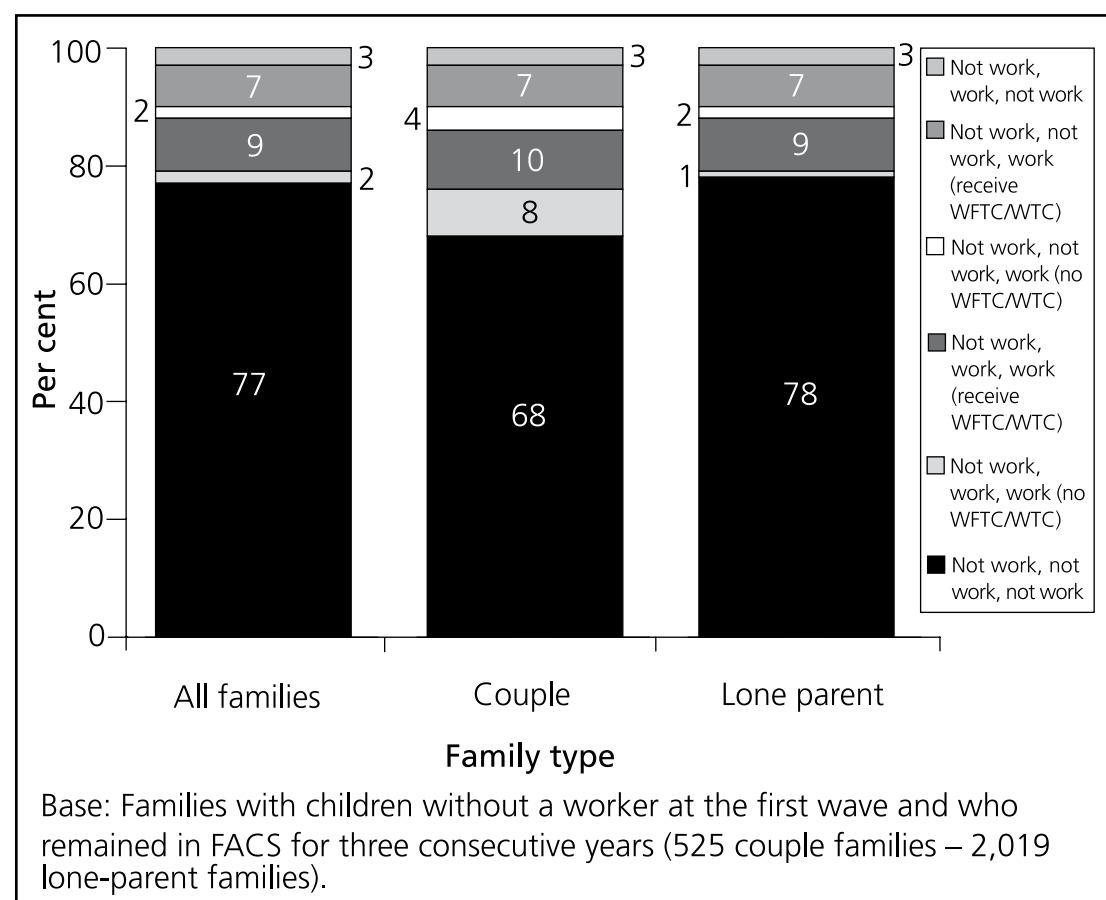
¹⁶ It should be noted that parents could have moved into and out of work between the annual FACS interviews. These movements are not captured in this analysis.

The majority of families with no worker at the first observation remained without a worker at the second observation (one year later) and at the third observation (one year later again). Three-quarters (77 per cent) of the families had no worker at all three observations. Lone parent families were more likely than couple families to have this pattern (78 per cent compared with 68 per cent).

One in ten (11 per cent) families initially without work moved into work after a year, and were still in work a further year later. Couple families were more likely than lone parent families to remain in work for more than one year (18 per cent compared with ten per cent).

It is the families that moved into, and stayed in, work that are the focus of the analysis from here on. As already explained, the small sample sizes mean that we cannot categorise these families according to whether or not they received in-work tax credits. Figure 3.9 shows that nine in ten lone parent families that moved into and stayed in work received in-work tax credits (nine per cent out of the ten per cent who moved into and remained in work for two years).

Figure 3.9 Movements into work and receipt of in-work tax credits, two-year transitions from FACS 2001-2005

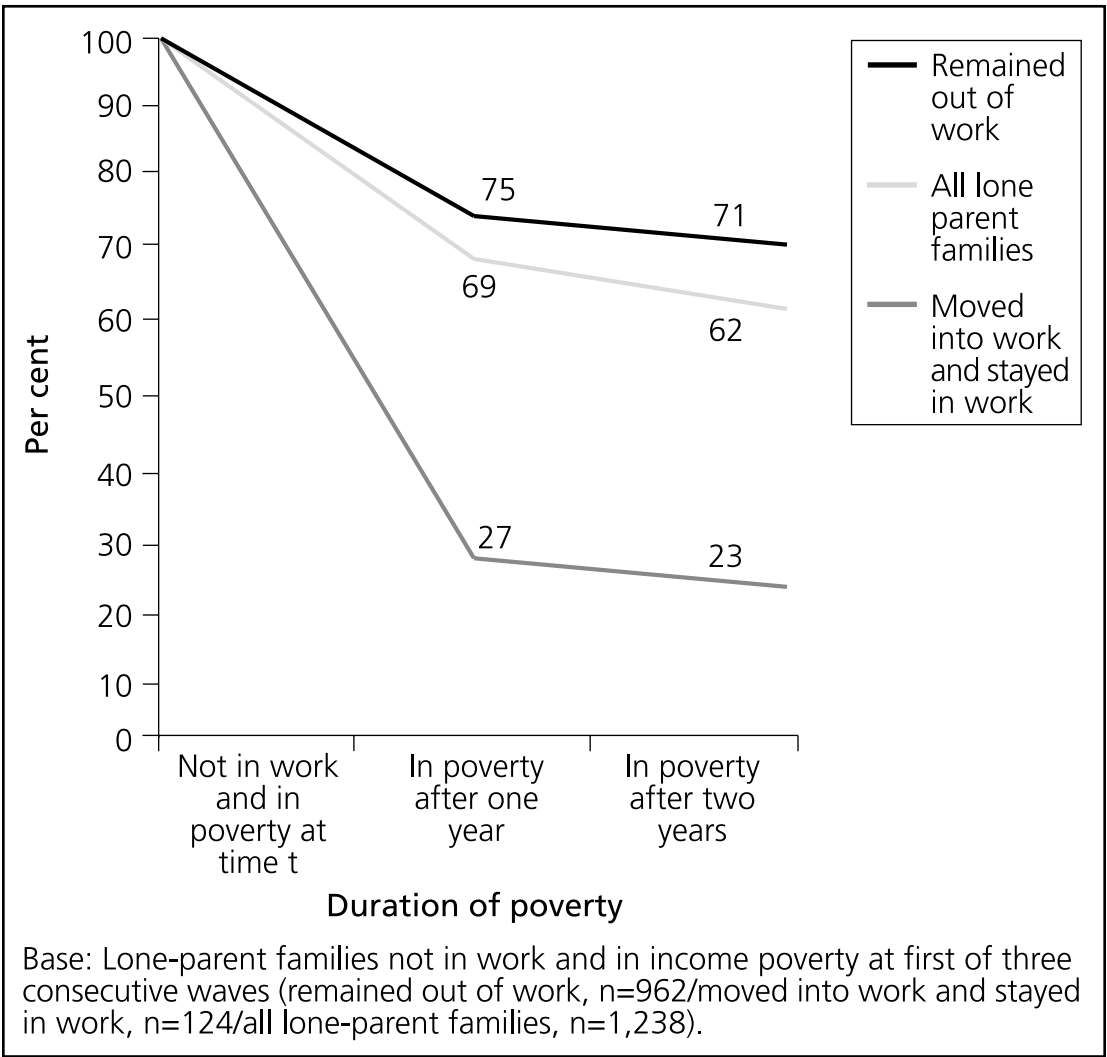


3.2.2 Changes in income

This section investigates how family income poverty status changes following a move into work. This is achieved by taking a sample of families in income poverty and then tracking their income poverty status over two consecutive years. How likely a family was to remain poor according to whether or not they moved into and remained in work is then examined.

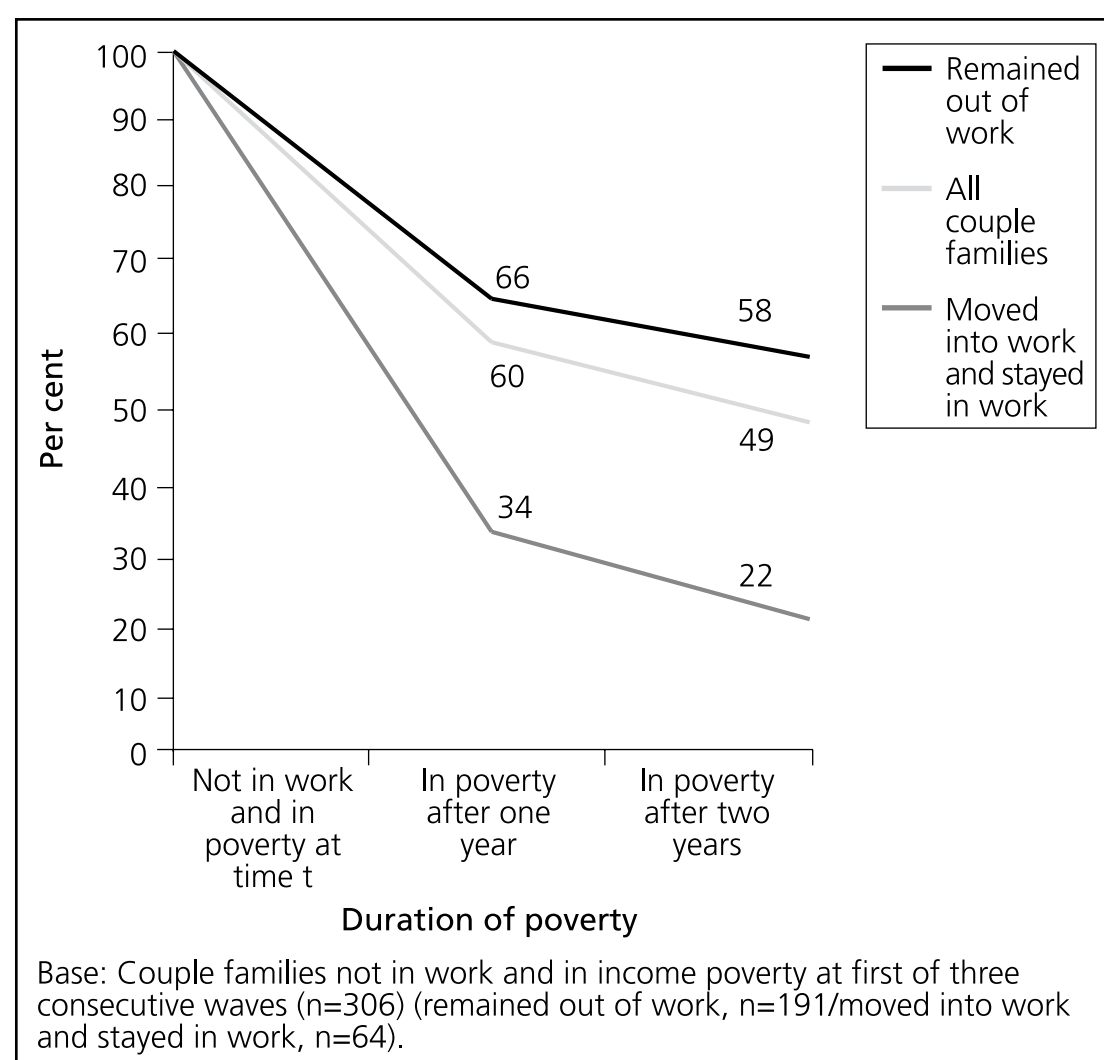
Figure 3.10 considers lone parent families. It shows that three quarters of lone parent families who moved into work after one year and were still in work one year later had escaped income poverty. For many of these families the first year of employment was associated with a change in income poverty status, as just a quarter (27 per cent) remained in income poverty after this time. The next year saw a smaller change and, after two years, 23 per cent of these families were still in income poverty.

Figure 3.10 Changes in income poverty status following a move into work, lone parent families in three consecutive waves of FACS 2001-2005



Families that were not in work over the entire period faced high rates of income poverty. Three-quarters (75 per cent) remained in income poverty after one year and 71 per cent were still in income poverty after two years. There are a number of reasons why some of these families escaped income poverty over this time. Some may have seen an increase in out-of-work benefits, which have risen for families with children in recent years, and some may have been supplementing their income by working part time (work of less than 16 hours per week¹⁷). However, it is unlikely that either or both of these changes would enable a family to move far above the income poverty threshold.

Figure 3.11 Changes in income poverty status following a move into work, couple families in three consecutive waves of FACS 2001-2005



¹⁷ Analysis of the British Household Panel Study has shown that events such as an increase in earnings and changes in the demographic make-up of families (for example partnering) have the largest impact on poverty exits (Jenkins and Rigg, 2001; and DWP, 2007).

Figure 3.11 repeats the same analysis for couple families. The rates of leaving income poverty one year after a move into work were less dramatic for couple families than for lone parent families. A third (34 per cent) of couple families remained in income poverty a year after starting work. However, after the second year of work, only one fifth (22 per cent) of couple families were still poor – a similar proportion to lone parent families. It is likely that a substantial proportion of parents move into work if their partner is already working – a finding replicated in other research (DWP, 2007; Millar and Ridge, 2001).

Couple families that remained out of work over the two-year period were less likely to experience income poverty than lone parent families with a similar work pattern. Three-fifths (58 per cent) of couple families that remained out of work for the whole period remained in income poverty during this time, compared with 71 per cent of lone parent families.

3.2.3 Changes in living standards

We saw in the previous section that the majority of families where a parent started work over a period of two years also left income poverty during this time. This section of the report considers improvements in living standards over the same period. To do this we focus on families initially in hardship and observe how living standards change following a move into work.

Figure 3.12 (for lone parent families) confirms the finding that improvements in living standards happen at a slower rate than improvements in income following a move into work. This is to be expected given the more immediate impact on income that a movement into work can bring. Likewise it can often take a steady period of work and subsequent accumulation of income to see marked changes in the ownership of material goods or participation in leisure activities.

Figure 3.12 shows that 60 per cent of lone parent families who moved into work found themselves still in hardship one year later (the previous section showed that only 27 per cent of lone parent families still found themselves in income poverty a year after moving into work). Remaining in work for a further year saw a notable decrease in the risk of hardship, from 60 per cent after one year in work to 45 per cent after two years in work. However, this means that almost half of lone parent families initially out of work and in hardship remained in hardship two years after moving into work.

Unsurprisingly, lone parent families who found and remained in work were more likely to escape hardship than lone parent families who remained out of work. Less than half (45 per cent) of lone parent families who found and remained in work were still in hardship two years later, compared with 79 per cent of lone parent families who remained out of work over the same period.

Figure 3.12 Changes in living standards hardship status following a move into work, lone parent families in three consecutive waves of FACS 2001-2005

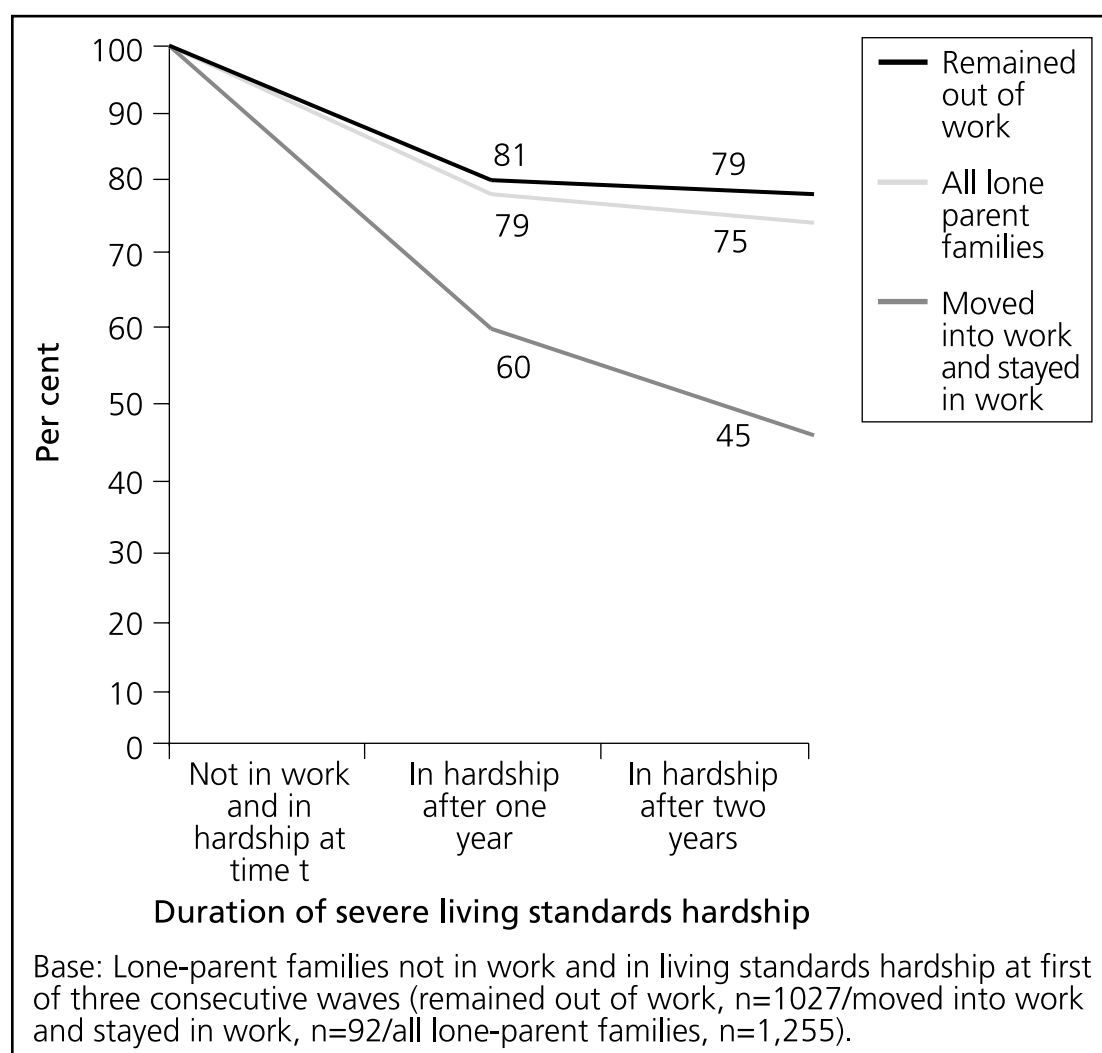
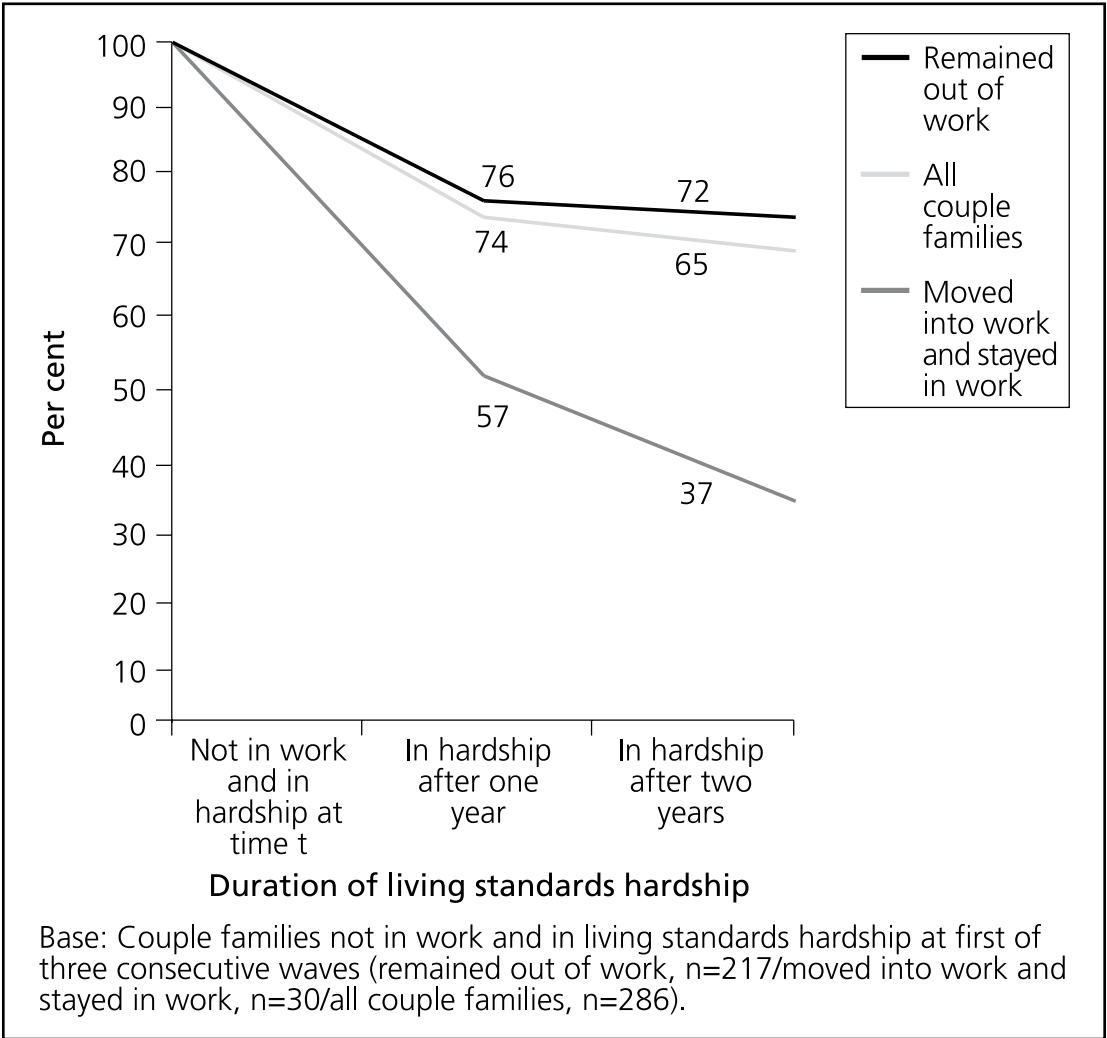


Figure 3.13 repeats this analysis for couple families. We see very little difference between the rate of escaping hardship for couple and lone parent families. Fifty-seven per cent of couple families initially out of work and in hardship remained in hardship in the year following a move into work. Again this rate dropped markedly following a second year in work. However, 37 per cent of couple families who were initially in hardship and had been in work for two years remained in hardship¹⁸.

Three-quarters (72 per cent) of couple families and nearly four fifths (79 per cent) of lone parent families who were not in work over the two-year period remained in hardship during this time.

¹⁸ Note that this analysis is based on a small sub-group of families, so the findings should be treated with caution.

Figure 3.13 Changes in living standards hardship status following a move into work, couple families in three consecutive waves of FACS 2001-2005



3.2.4 The factors that influence improvements to income and living standards

We have observed that families who move into and remain in work over a two-year period are likely to experience an improvement in income and, at a slower rate, an improvement in living standards. In order to explore the impact of work on these changes, a multivariate analysis, similar to the one used for income in Section 3.1.4, is used¹⁹. This analysis seeks to explain which circumstances significantly contribute to a sustained improvement in living standards when taking other potentially confounding factors into account.

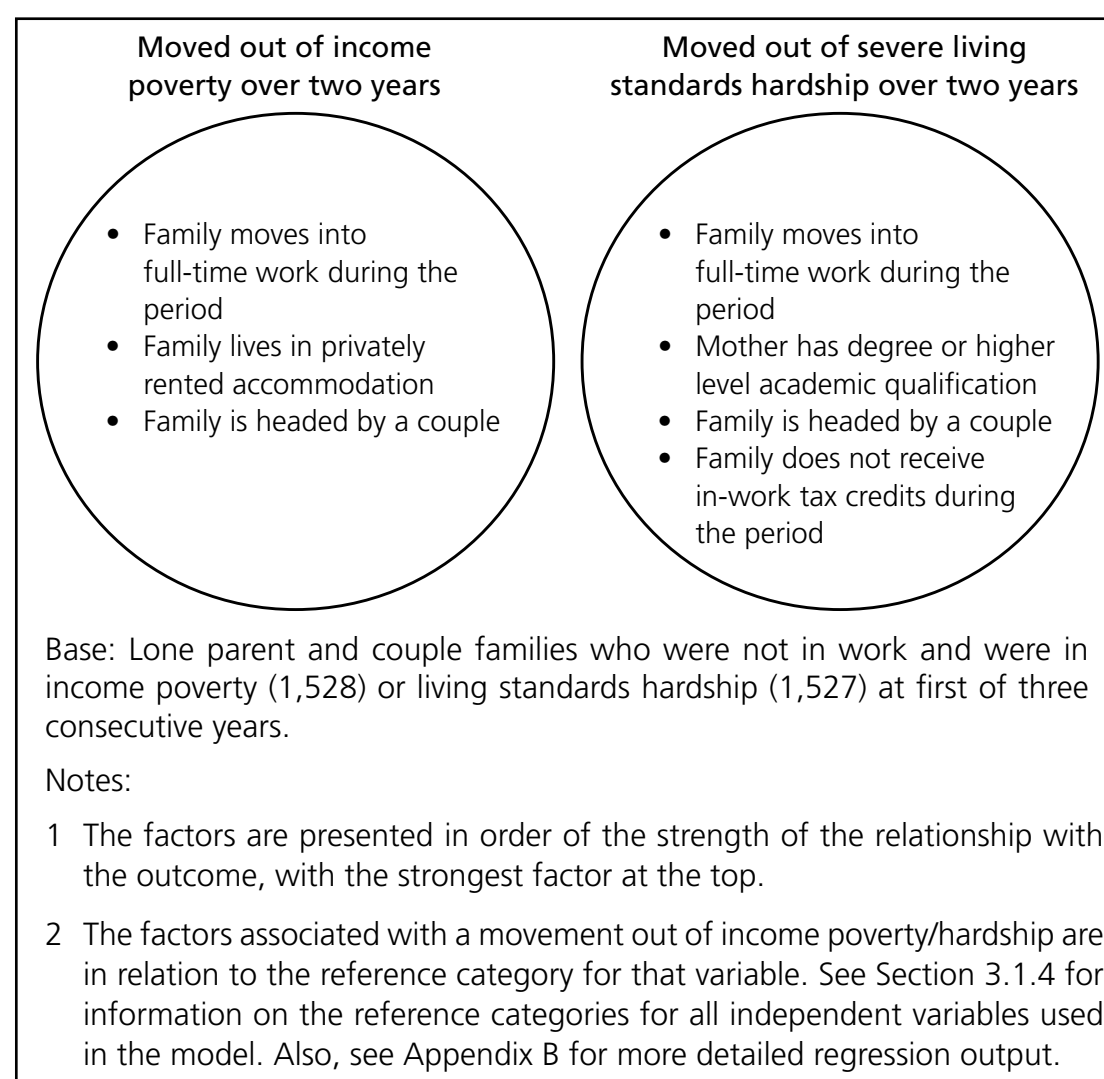
¹⁹ See Section 3.1.4 for details of the variables used in the model. The only difference in the models is that this chapter looks at a two-year period rather than a one-year period, so, for example, the dependent variable in the model describes two exclusive categories: i) not in poverty at the first observation and also not in poverty two years later, and, ii) not in poverty at the first observation but in poverty two years later. The reference categories for the independent variables are the same as detailed in Section 3.1.4.

Figure 3.14 shows that moving into work and sustaining this employment is associated with an improvement in income and living standards over a two-year period. It also confirms that, when taking other factors into account, couple families were indeed more likely than lone parent families to leave income poverty and to leave living standards hardship. Other key findings from the multivariate analysis are that:

- families in privately rented accommodation were more likely to move out of income poverty; and
- families where the mother has a degree or higher level academic qualification were more likely to escape hardship.

Not being in receipt of in-work tax credits during this time was also a significant predictor of escaping hardship. This could imply that to achieve a substantial improvement in living standards within two years of moving into work requires an income higher than that which qualifies for in-work support.

Figure 3.14 Factors associated with a movement out of income poverty and severe living standards hardship over two years



3.3 Summary

This chapter has explored the impact that a movement into work (of 16 or more hours per week) can have on the income and living standards of families with children.

- Between two annual waves of FACS 13 per cent of families who were initially not in work moved into work.
- Couple families were almost twice as likely as lone parent families to have experienced this move (figures were 21 per cent and 12 per cent respectively).

A large proportion (70 per cent) of families moved out of income poverty a year following a movement into work. When looking at families that moved into work and remained in work for two years, the evidence suggests that the majority of families escape income poverty in the first year of starting work. Rates of income poverty exit only improved slightly for families that remained in work for a further year.

- Three-quarters (77 per cent of lone parent families and 78 per cent of couple families) had escaped income poverty two years after finding and remaining in work.

On average, three-quarters of families that moved into work also received in-work tax credits. Of these, couple families were much less likely to be in receipt than lone parent families.

- Half of couple families that moved into work received in-work tax credits, compared to two-thirds of lone parent families.

Moving into work and receiving in-work tax credits appeared to have more impact on leaving income poverty for lone parent than couple families.

- Of families who moved into work **and** received in-work tax credits, lone parent families were more likely than couple families to exit from income poverty (figures were 75 per cent and 62 per cent respectively).

This may reflect differences in methods used to calculate in-work tax credit entitlement and equivalised income (used to calculate the income poverty threshold). The methodology used to construct the low-income poverty threshold assumes that a couple family with children requires a higher equivalised income than a lone parent family to achieve the same standard of living. However, the means test calculation for tax credit receipt sets the basic rates at the same level for lone parent families and for couple families. Thus lone parent families and couple families will tend to receive the same amounts of tax credits if they have the same gross income levels, but this amount will have a greater impact on the income poverty status of a lone parent family compared with a couple family.

Taking a range of factors into account revealed that that families who had a parent who moved into full-time employment were most likely to leave income poverty. Other family characteristics linked to a movement out of income poverty were being in a couple or large family, and living in privately rented accommodation.

Moves out of hardship following a transition into work were less pronounced and happened at a slower rate than moves out of income poverty. Overall, the exit rates from hardship after one year were similar for couple and lone parent families – around two-fifths escaped hardship. Although sample sizes make robust analysis difficult (and hence these results should be treated with caution) – the general picture is that couple families have slightly higher hardship exit rates than lone parent families. A sizeable number of both lone parent and couple families that remained in work for two years experienced a move out of hardship in the second year after a move into work.

- At the end of the two-year observation period over half of lone parent families (55 per cent) and three fifths of couple families (63 per cent) who moved into work and remained in work for two years, had escaped hardship.

Again families that had a parent who moved into full-time employment were most likely to leave living standards hardship. Other families with an increased likelihood of escaping hardship were couple families, those with a mother who did not have a long-standing illness or disability, families with fewer children, and families that owned or were buying their home. Moving into work was clearly the main factor that impacted on exits from income poverty and hardship. In-work tax credit receipt was not statistically significant in predicting whether families would leave income poverty or hardship. This was because the effect of moving into work dominated that of receiving in-work tax credits.

4 The impact of moving out of work on income and living standards

This chapter looks at the changes in income poverty and living standards hardship status for families that experienced a move out of full-time paid work. The longitudinal element of the Families and Children Study (FACS) is again used to observe circumstances of families one and two years after a move out of work. As in the previous chapter, families that were and were not in receipt of in-work tax credits are considered.

4.1 The impact on income and living standards in the first year following a move out of work

This section primarily looks at four groups of families:

1. families who moved from being in work and in receipt of in-work tax credits to no work or work of less than 16 hours per week;
2. families who moved from being in work but not receiving in-work tax credits to no work or work of less than 16 hours per week;
3. families who remained in work and were in receipt of in-work tax credits; and
4. families who remained in work and were not in receipt of in-work tax credits.

Figure 4.1 Labour market and in-work tax credit transitions

	First observation		One year later ¹
Transition 1.	In work and in receipt of in-work tax credit	➔	Out of work
Transition 2.	In work and not in receipt of in-work tax credit	➔	Out of work
Transition 3.	In work and in receipt of in-work tax credit	➔	In work and in receipt of in-work tax credit
Transition 4.	In work and not in receipt of in-work tax credit	➔	In work and not in receipt of in-work tax credit
Note: Out of work means not working, or working for less than 16 hours per week. In work means working for 16 or more hours per week.			
¹ Interviews for FACS are carried out between September and December of each year. It is, therefore, possible that the duration between interviews is slightly longer, or shorter, than one year.			

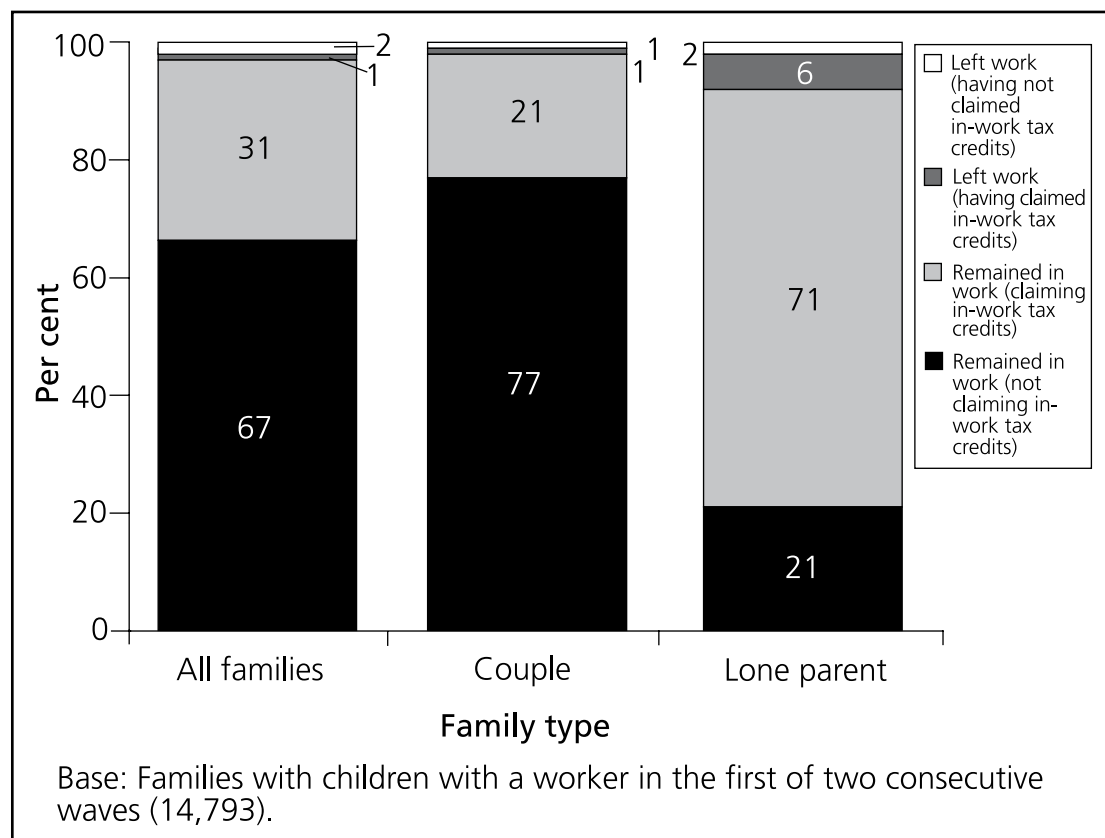
As mentioned previously, FACS interviews take place annually and hence families could have had a movement into or out of work between interviews. These work transitions are not measured in this analysis.

4.1.1 Movements out of work

Figure 4.2 shows that relatively few (less than three per cent) families moved out of work across two annual waves of FACS. Lone parent families were four times more likely than couple families to move out of work (eight per cent compared with two per cent). The majority of lone parent families who left work had been receiving in-work tax credits (six per cent of the eight per cent who moved out of work).

Of the families that remained in work over one year, two-thirds did not receive in-work tax credits during this time. Working lone parent families were over three times more likely than couple families to receive in-work tax credits (71 per cent compared with 21 per cent).

Figure 4.2 Movements out of work and receipt of in-work tax credits, one-year transitions from FACS 2001-2005



4.1.2 Changes in income

Figure 4.3 (lone parent families) and Figure 4.4 (couple families) look at changes in income poverty status for families initially in work. Figure 4.3 shows that 45 per cent of lone-parent families who moved out of work, having received in-work tax credits, moved into income poverty. The respective figure for those who moved out of work and had not received them was 40 per cent. Eight out of ten (79 per cent) lone parent families who were in work and received in-work tax credits in both waves had not experienced income poverty during this period.

Figure 4.3 The impact of transitions out of work and in-work tax credit receipt on income poverty dynamics, lone parent families, one-year transitions from FACS 2001-2005

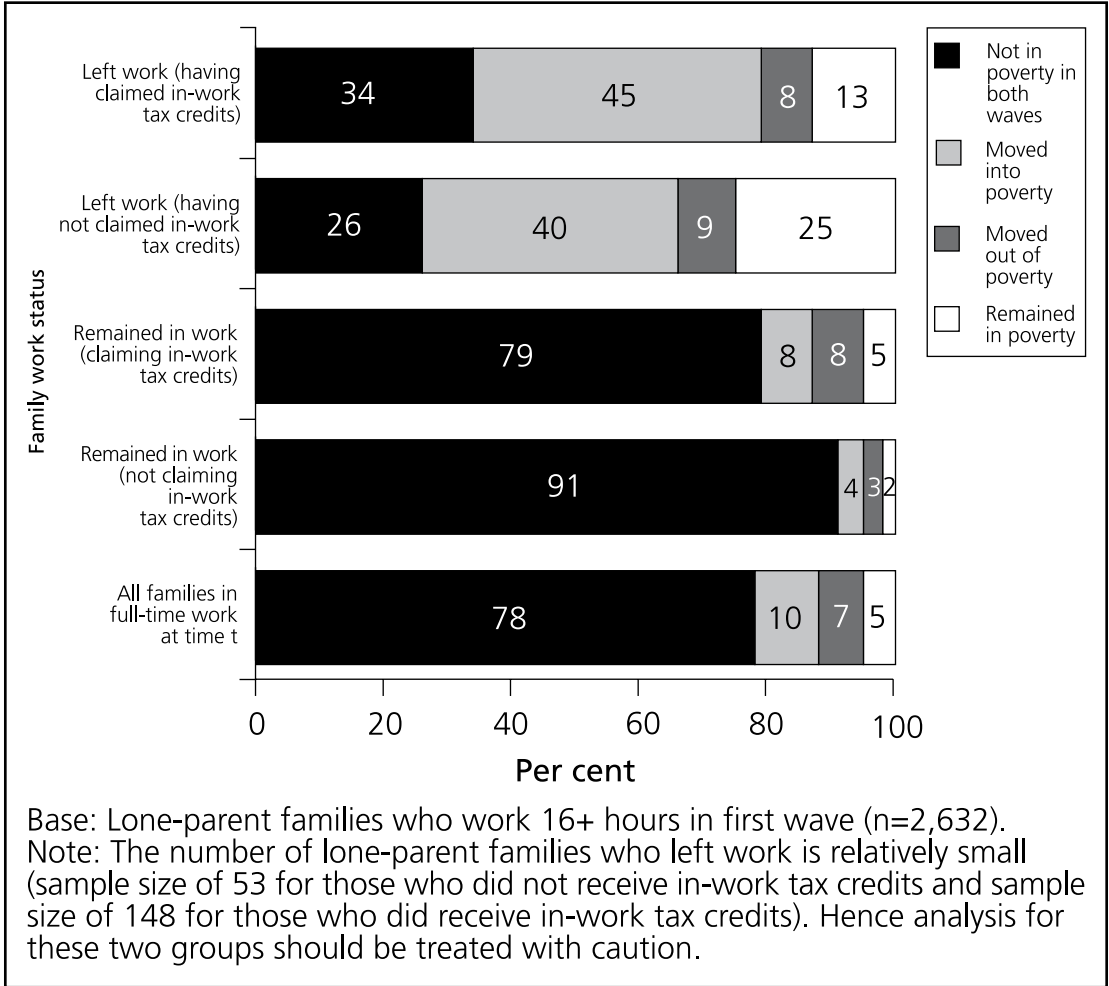
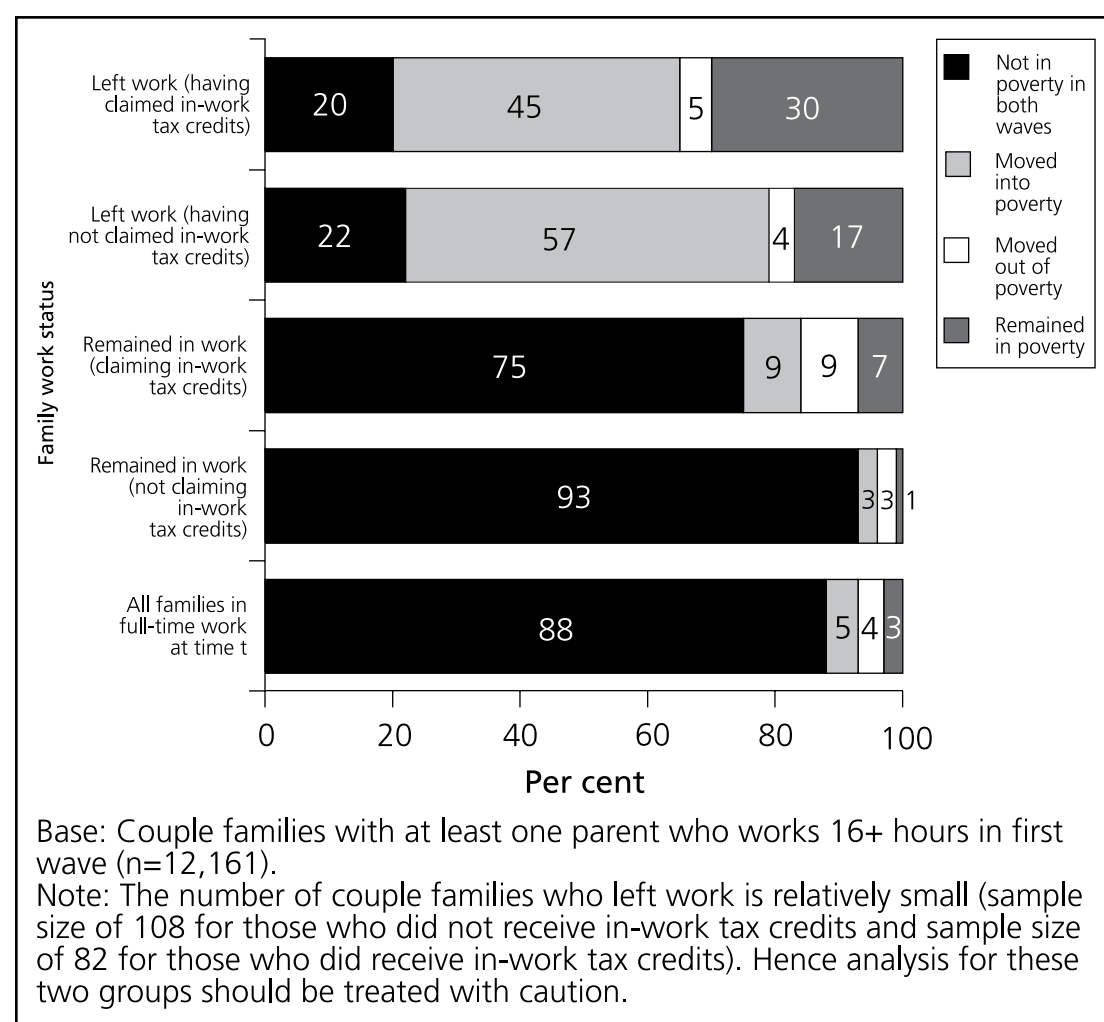


Figure 4.4 looks at the status of couple families and presents a picture similar to that for lone parent families. The majority (88 per cent) of couple families initially in work managed to avoid income poverty during this period. Remaining in work appears to be a key issue for income poverty avoidance, as the vast majority of couple families who were in work at both observations avoided income poverty (93 per cent of those not receiving in-work tax credits and 75 per cent of those receiving in-work tax credits).

A movement out of work appears to have had a larger impact on the income poverty status of couple families compared with lone parent families. Although overall the same proportion (45 per cent) of those receiving in-work tax credits moved into income poverty, fewer couple families were not in income poverty initially. More than half (57 per cent) of in-work couple families who did not receive in-work support moved into income poverty when they moved out of work – 40 per cent of lone parent families made an equivalent transition.

Figure 4.4 The impact of transitions out of work and in-work tax credit receipt on income poverty dynamics, couple families, one-year transitions from FACS 2001-2005



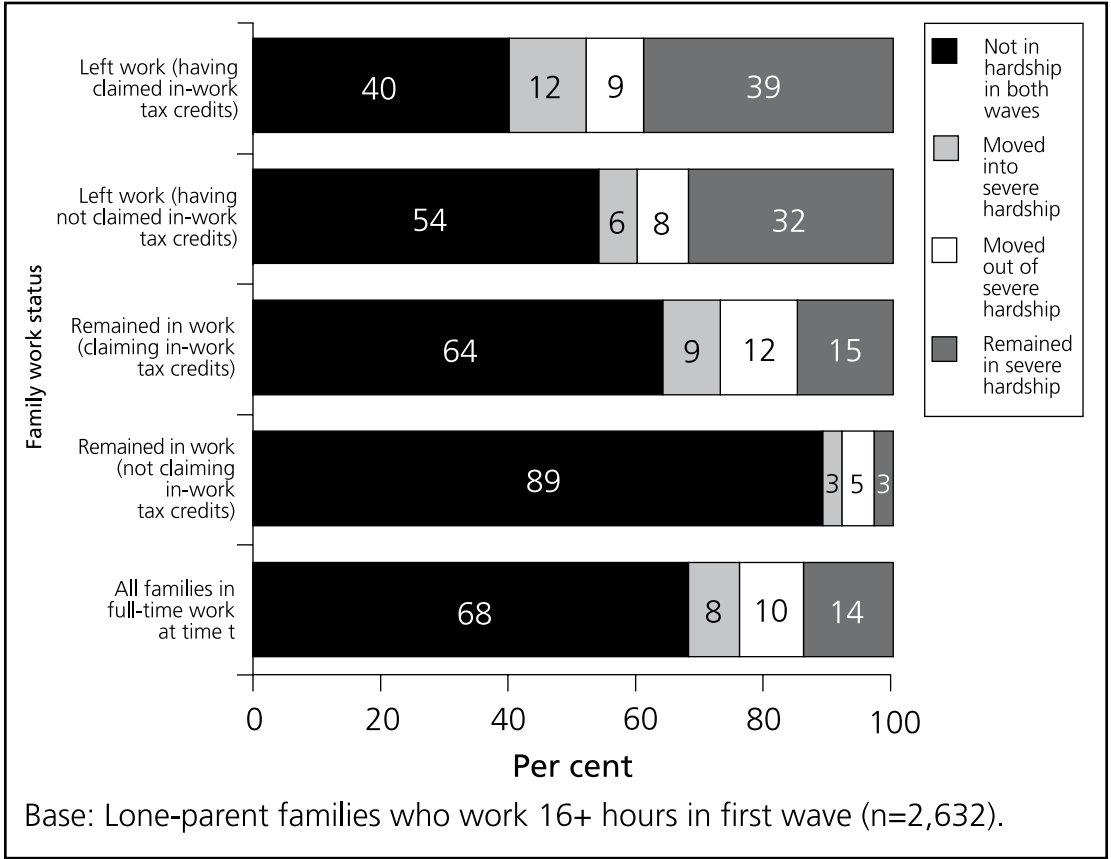
4.1.3 Changes in living standards

This section looks at changes in living standards following a transition out of work. In general, a move out of work did not appear to impact on movements into hardship to the same degree as it did on movements into income poverty.

Figure 4.5 considers the impact of moving out of work for lone parent families. Of those who left work, just over one in ten (12 per cent) lone parent families

who received in-work tax credits experienced a move into hardship over a one-year period. The corresponding figure for families who did not receive in-work tax credits was six per cent.

Figure 4.5 The impact of transitions out of work and in-work tax credit receipt on hardship dynamics, lone parent families, one-year transitions from FACS 2001-2005



Fifteen per cent of lone parent families who remained in work, and received in-work tax credits, experienced hardship at both observations. A further nine per cent moved into hardship during this time. This suggests that the income of some working families, despite being supplemented by in-work support, is not sufficient to ensure that they avoid living standards hardship.

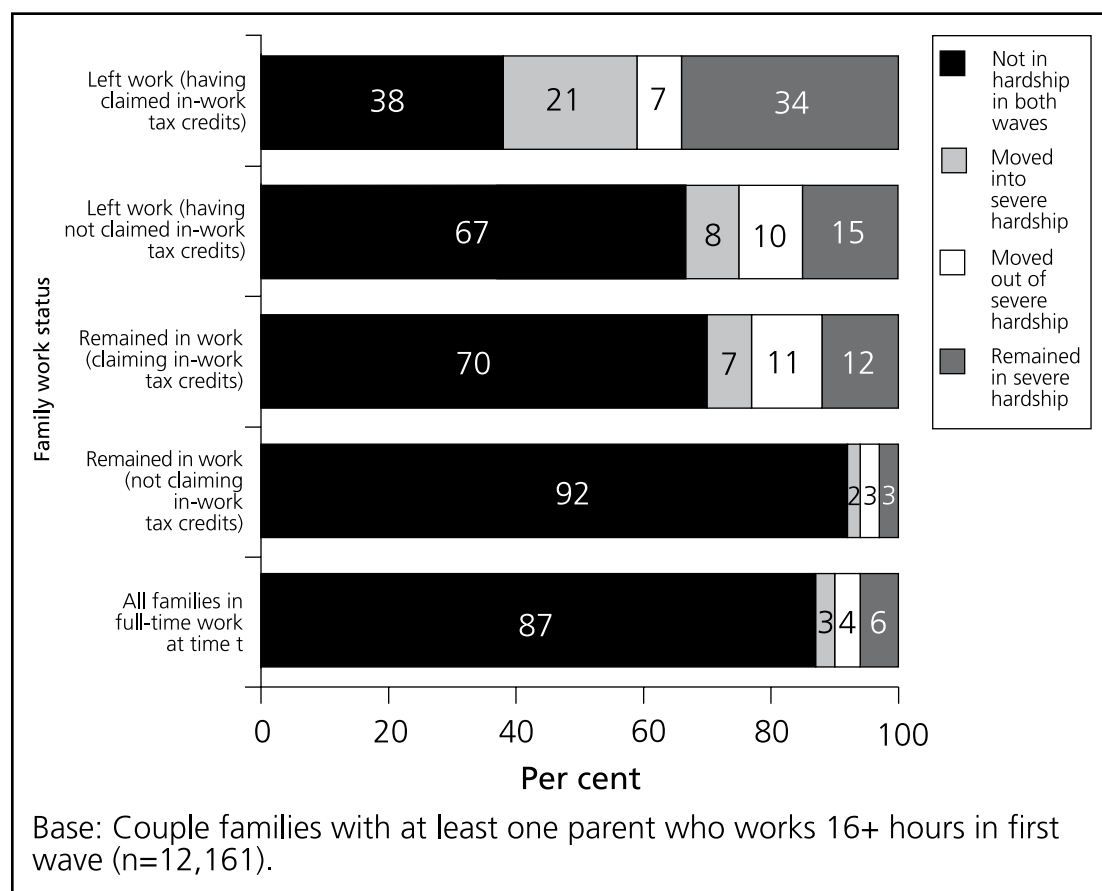
Overall the relationship between work and hardship suggests that not being in work at any time over this period increased the likelihood of hardship. This could also imply that a period of hardship means it is difficult to remain in work, or that those in hardship are more likely to experience short-term jobs. A number of factors may be causing this, such as work-readiness²⁰, financial stresses and strains, and education and skills. This is an area that warrants further research.

²⁰ Work readiness means being ready for work and relates to qualities such as skills, knowledge and experience, that will enable someone to start work without the need for additional training or guidance.

Figure 4.6 repeats this analysis for couple families. It confirms that couple families were less likely to experience hardship than lone parent families. Nine in ten (87 per cent) couple families initially in work avoided hardship at both observations (compared with 68 per cent of lone parent families).

Again, moving out of work did not appear to have as notable an impact on living standards hardship as on income poverty for couple families. Eight per cent of those who did not receive in-work tax credits, and 21 per cent of those who did, moved into hardship over the period – the figures for moving into income poverty were 57 per cent and 45 per cent respectively (see Figure 4.4). The biggest difference between the income poverty and hardship analyses is that the majority (67 per cent) of couple families who left work having not received in-work tax credits avoided hardship over the period, whereas only a fifth (22 per cent, see Figure 4.4) avoided income poverty.

Figure 4.6 The impact of transitions out of work and in-work tax credit receipt on hardship dynamics, couple families, one-year transitions from FACS 2001-2005



4.1.4 The factors that influence movements into income poverty and living standards hardship

Previously we have observed that families who left work were at risk of moving into income poverty, while the impact on living standards was less striking. In this section we use multivariate analysis to explore whether leaving work is among the factors that can impact on the deterioration of economic resources. Regression analysis is again used and the methodology is outlined in Section 3.1.4.

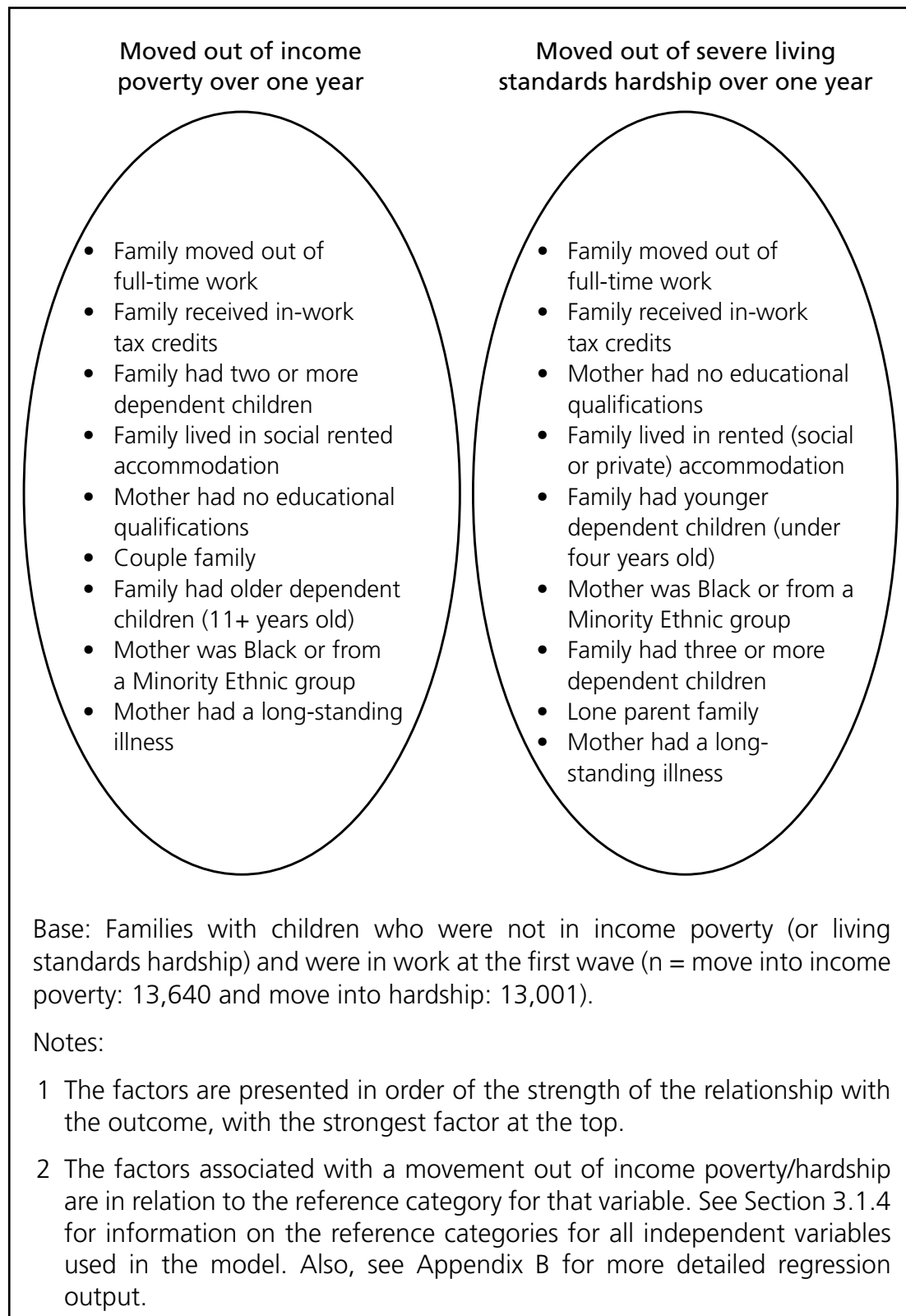
Figure 4.7 presents the characteristics and events that were significant in predicting whether a family moved into income poverty, and whether a family moved into living standards hardship, between the two FACS observations. The most significant predictor of a move into either income poverty or living standards hardship was a movement out of work (particularly for lone parent families).

A number of other characteristics were associated with a move into income poverty and a move into hardship. These were; living in social rented accommodation, the mother having no educational qualifications, the mother being from a Black or Minority Ethnic group, and the mother having a long-standing illness. Furthermore, families with more than one child were at risk – those with two or more children were at risk of moving into income poverty and those with three or more children were at risk of moving into hardship.

Having received in-work tax credits was also a significant factor associated with a move into income poverty and a move into hardship. However, it must be remembered that families must earn a relatively low income in order to be eligible for in-work tax credits and when a family moves out of work, it is no longer entitled to in-work tax credits. Families receiving in-work tax credits are therefore at greater risk of moving into income poverty or hardship because, if they move out of work, they would lose their income from work as well as from in-work tax credits.

The main inconsistency in the risks associated with a move into income poverty and a move into hardship was family type. Lone parent families had a higher risk than couple families of entering income poverty, while the opposite was true for entering hardship.

Figure 4.7 Factors associated with a movement into income poverty and severe living standards hardship over one year



4.2 The impact on income and living standards two years after a move out of work

This section explores the longer-term effects of moving out of work on family income and living standards. Observations from three consecutive waves of FACS are used to observe changes over a two-year period.

This section is primarily concerned with two groups of families (see Figure 4.8):

- families who moved out of work at the second observation and were still out of work at the third observation; and
- families who were in work at all three observations.

Figure 4.8 Labour market transitions

	First observation (time t)		One year later (time t+1) ¹		One year later (time t+2)
Transition 1.	In work	➔	Out of work	➔	Out of work
Transition 2.	In work	➔	In work	➔	In work
Note: Out of work means not working or working for less than 16 hours per week. In work means working for 16 or more hours per week.					
¹ Interview for FACS are carried out between September and December of each year. It is, therefore, possible that the duration between interviews is slightly longer, or shorter, than one year.					

There are not enough families in FACS who have moved out of, and remained out of, work to allow their transitions to be categorised according to whether the family was initially in receipt of in-work tax credits (see Figure 4.9). The previous section used this distinction to help focus on the transitions of lower income families (those receiving in-work tax credits). Hence the focus of the analysis in this section is constrained to the role that a sustained movement out of work plays in reducing income and living standards for all families with children.

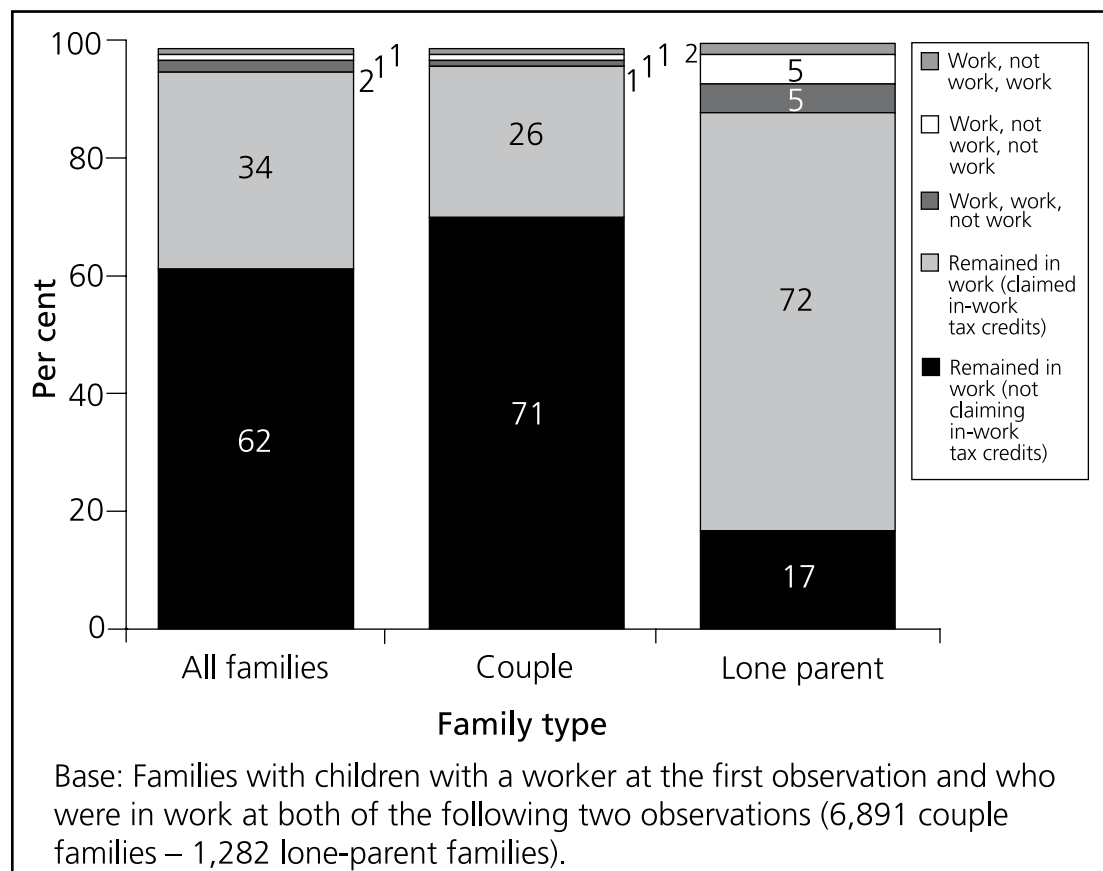
Given the general stability of family labour market status over time, the sample sizes of some of the labour market transitions of interest are quite small and hence some of the findings of this section should be treated with caution. The sample sizes are detailed in the footnote of the relevant figures.

As mentioned previously, FACS interviews take place annually and hence families could have had a movement into or out of work between interviews. These work transitions are not measured in this analysis.

Figure 4.9 shows that most families (96 per cent) in work at the first FACS observation were also in work at the second and third observation. Couple families were more likely than lone parent families to remain in work (97 per cent compared with 89 per cent). For those who remained in work over the period, the analysis observes their in-work tax credit receipt. Lone parent families were much more likely to receive in-work tax credits than couple families.

Relatively few families made a sustained transition out of work over the three observations. Only one per cent of couple families and five per cent of lone parent families were working at the first observation and then not working at the following two observations. Couple families are particularly unlikely to become workless. Because the work status of the family as a whole is being looked at, the joint work status of the parents is considered here. Chapter 2 showed that in almost three in five (57 per cent) couple families both parents work (for 16 or more hours per week). Hence for a dual-earning couple family to become non-working, both parents in that family have to move from work of 16 or more hours per week to no work or work of less than 16 hours.

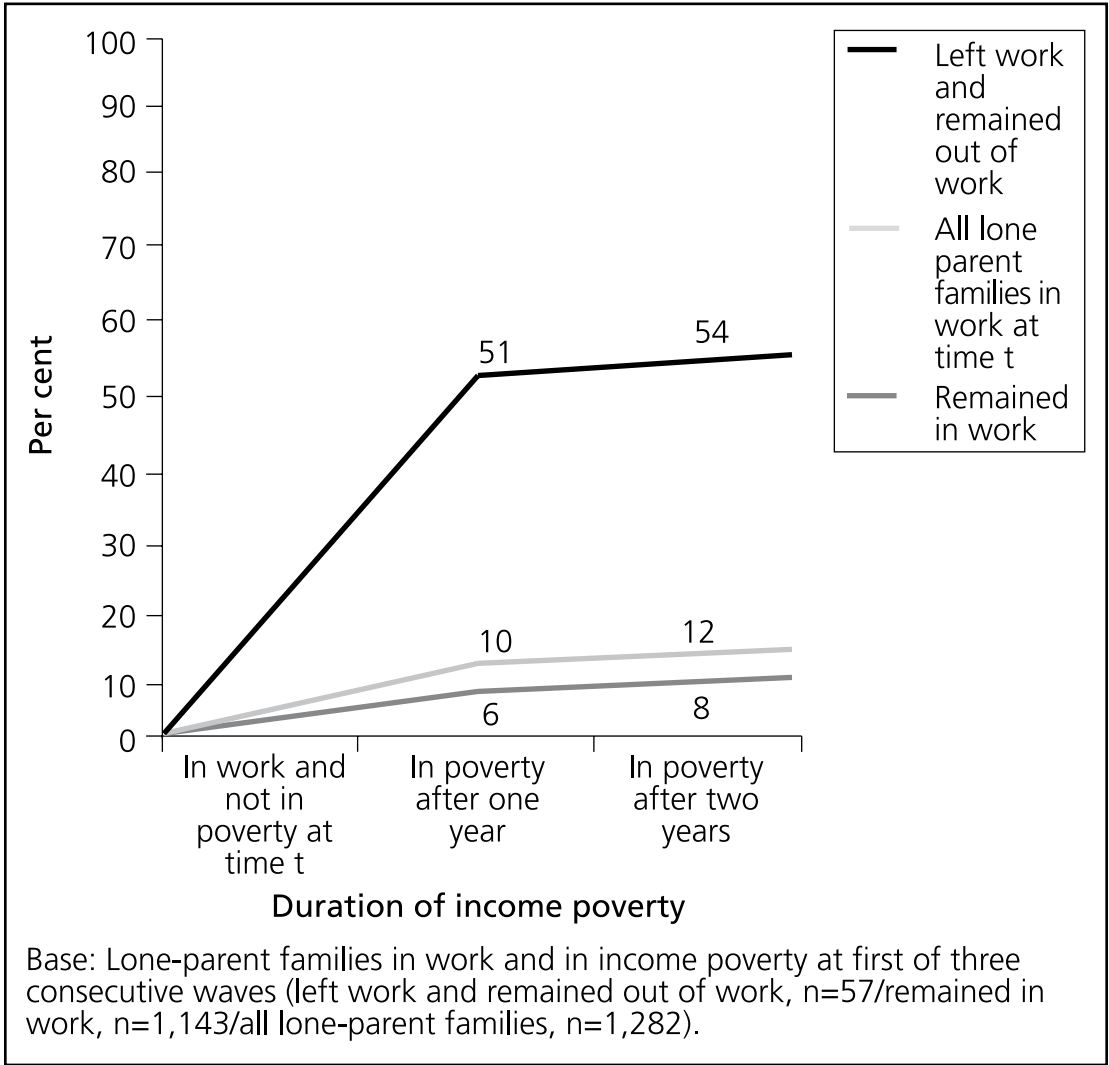
Figure 4.9 Movements out of work and receipt of in-work tax credits, two-year transitions from FACS 2001-2005



4.2.1 Changes in income

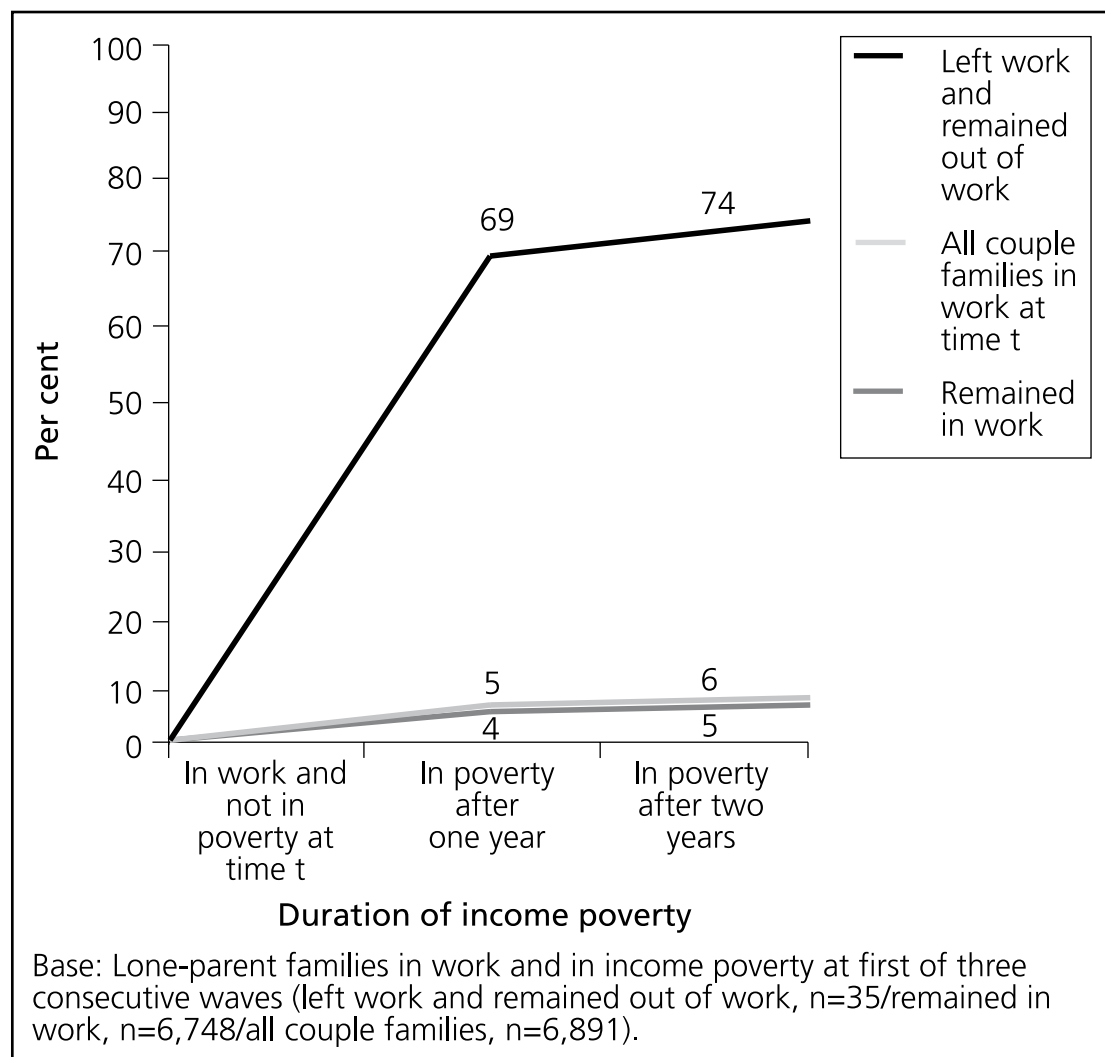
Figure 4.10 investigates how the income poverty status of lone parent families changed over the two years since a move out of work. It shows that over half (54 per cent) of lone parent families that moved out of work were living in income poverty two years later. As would be expected, it is far more likely that the move into income poverty happened in the first rather than the second year after leaving work.

Figure 4.10 Changes in income poverty status following a move out of work, lone parent families in three consecutive waves of FACS 2001-2005



As Figure 4.11 shows, couple families who moved out of work were more likely to enter income poverty than lone parent families who moved out of work (74 per cent were poor after the second year compared with 54 per cent of lone parent families). Again the move into income poverty was far more likely to happen in the first year after leaving work.

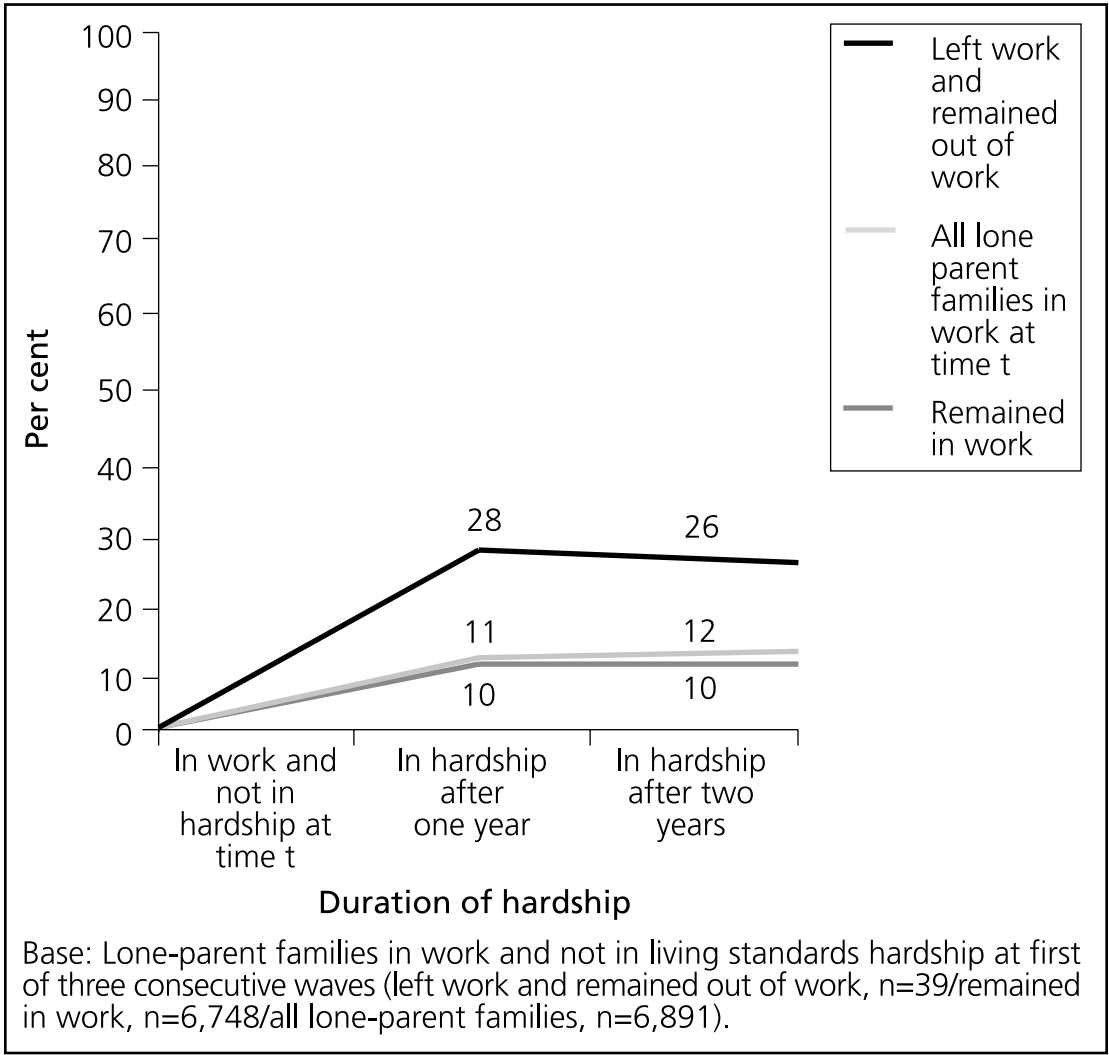
Figure 4.11 Changes in income poverty status following a move out of work, couple families in three consecutive waves of FACS 2001-2005



4.2.2 Changes in living standards²¹

As expected, rates of movement into living standards hardship after a move out of work were much slower than movements into income poverty. Figure 4.12 shows the patterns for lone parent families. Lone parent families that were in work at both observations were relatively unlikely to enter hardship (ten per cent). However, one quarter (26 per cent) of those that moved out of work and remained out at the second observation were in living standards hardship after two years – although the rate of hardship was much lower than for those that were in hardship and remained out of work (72 per cent – see Figure 3.13). There are of course far fewer working than non-working families in hardship overall (see Figure 2.6).

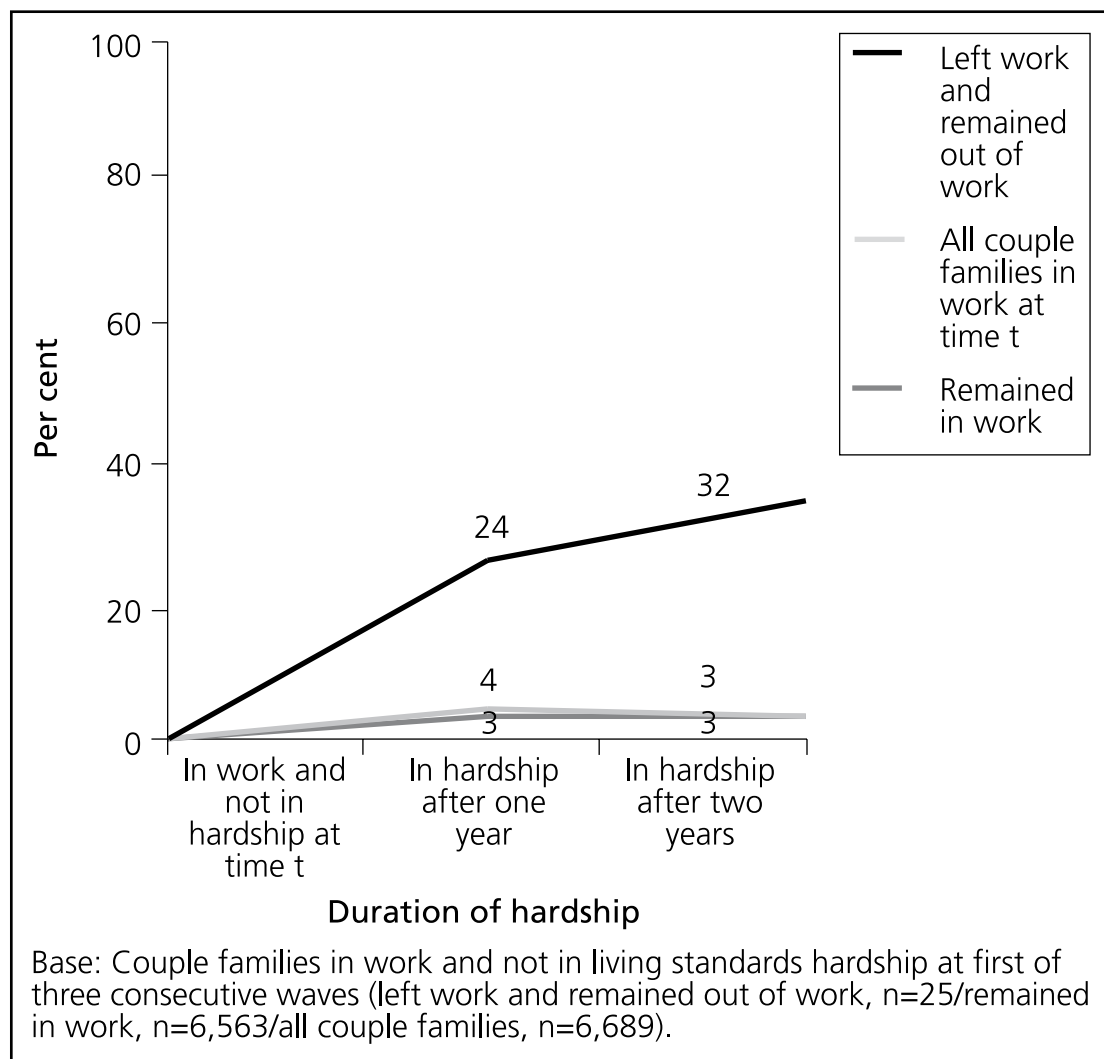
Figure 4.12 Changes in living standards hardship status following a move out of work, lone parent families in three consecutive waves of FACS 2001-2005



²¹ The sample sizes of some of the transitions of interest in Figures 4.12 and 4.13 are quite small and hence some of the findings of this section should be treated with caution. The sample sizes are detailed in the footnote of the relevant figures.

Overall, couple families were less likely to enter hardship, with just three per cent of couple families in work finding themselves in hardship two years later (Figure 4.13). Of couple families that moved out of work and remained out, one-third (32 per cent) were in severe living standards hardship two years later.

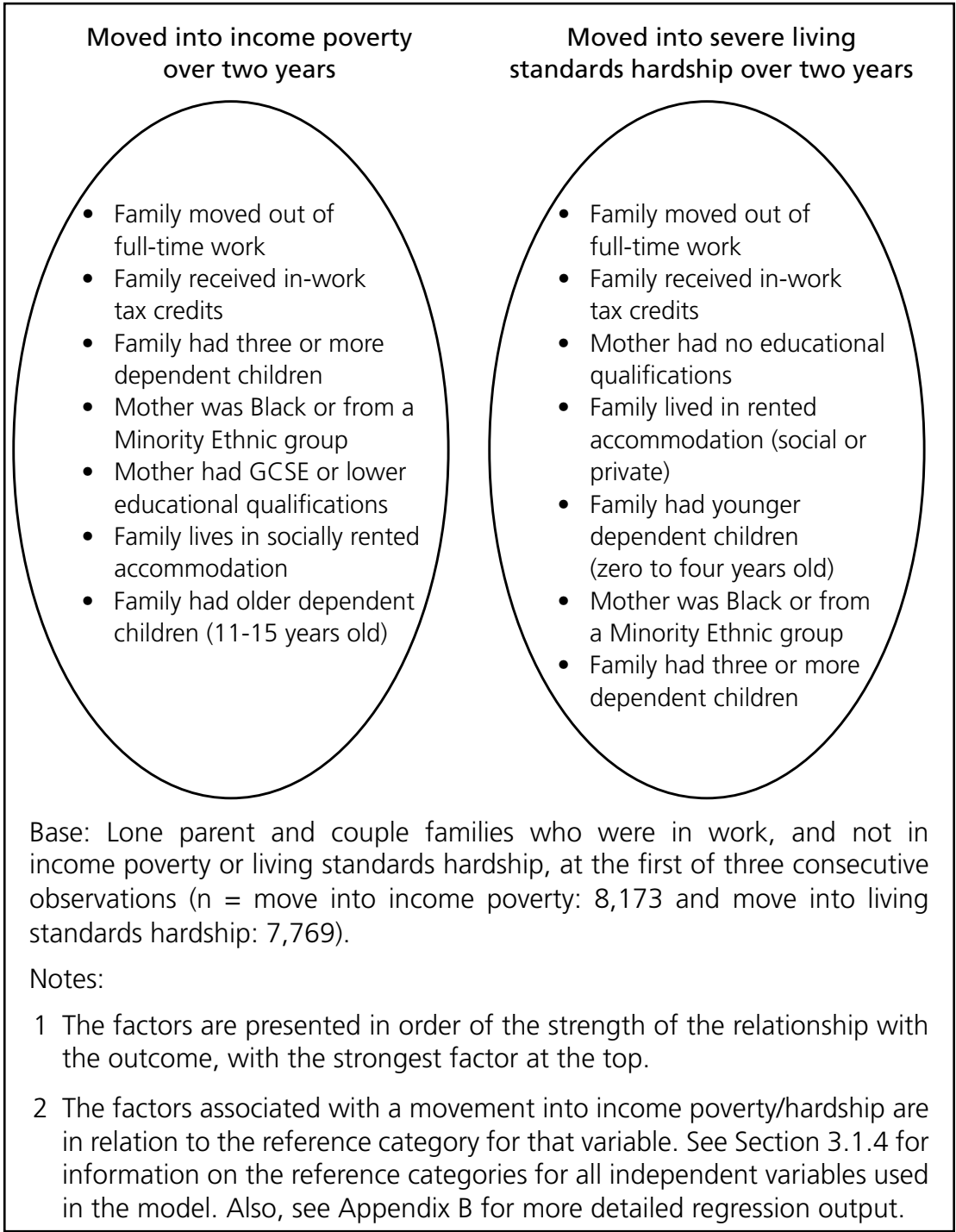
Figure 4.13 Changes in living standards hardship status following a move out of work, couple families in three consecutive waves of FACS 2001-2005



4.2.3 **The factors that may increase the risk of families falling into income poverty and living standards hardship**

Figure 4.14 shows the family characteristics and events that were associated with falling into income poverty, and living standards hardship, following a sustained move out of work. The analysis supports much of what has been observed already, namely that a movement out of work is the factor that has the strongest relationship with a movement into income poverty, and a movement into hardship.

Figure 4.14 Factors associated with a move into income poverty and severe living standards hardship over two years



Other factors associated with families falling into income poverty and hardship include having a large family (three or more dependent children), a mother who was Black or from a Minority Ethnic group, a mother who was less qualified, and living in social rented accommodation. Additionally, families with secondary-school children were at an increased risk of entering income poverty, and lone parent families and families with pre-school children had a higher risk of entering hardship.

Having received in-work tax credits was also associated with a move into income poverty and hardship. One reason for this is because these families were likely to have low earnings anyway, meaning that they were close to the income poverty and hardship thresholds. Some families who did not receive in-work support were likely to have higher incomes and more secure and well-paid work – it is also likely that there were a small proportion of eligible non-claimants who had incomes near the income poverty threshold.

As suggested above, the majority of these factors were associated with escaping income poverty and hardship over a one-year period (see Section 4.1.4).

4.3 Summary

This chapter has explored the income and living standards of families that move out of work. Relatively few families made this transition, but lone parent families were more likely to have made this transition than couple families (five per cent and one per cent respectively moved out of work and remained out of work for two years). It should be noted that the sample sizes of families that moved out of work were not large and hence some of the results in this chapter should be treated with caution.

Although the likelihood of making a transition out of work was more common among lone parent families, the impact of such a transition on income poverty was starker for couple families. Following a move out of work, couple families were more likely to enter income poverty than lone parent families. Three-quarters (74 per cent) of couple families who left work and remained out of work for two years moved into and stayed in income poverty, compared to just over half (54 per cent) of lone parent families.

A range of factors were associated with escaping income poverty and hardship, and most were relevant whether considering either a one- or two-year observation period. As the previous analysis suggested, a movement out of work had the strongest relationship with a movement into income poverty, and with a movement into hardship. Other factors associated with such a move were having a large family, having a mother who was Black or from a Minority Ethnic group, or who was not well-qualified, or living in social rented accommodation.

Although overall a higher proportion of couple families entered hardship following a sustained move out of work (32 per cent of couple families who left and remained out of work for two years moved into and stayed in hardship, compared to 26 per cent of lone parent families), being a lone parent was a significant risk factor in this transition when controlling for other potentially confounding factors. Families that received in-work support were more likely than those who did not to fall into income poverty and hardship following an exit from work. This is not surprising as families receiving in-work tax credits are more likely to have lower incomes, meaning they are closer to the income poverty and hardship thresholds. This means that only small decreases in their income or living standards would move them into income poverty and hardship.

5 Summary and conclusions

This final chapter summarises the main findings of the research, focusing in particular on the impact of work transitions on the income poverty and hardship status of families with children. These findings are used to comment on the implications of the research for future policy making and also outline areas for further investigation.

5.1 Main findings

The main objective of this research was to explore the impact of movements into and out of work on the economic circumstances of families with children, measured by income poverty and living standards hardship. The research used five waves of the Families and Children Study (FACS) to observe employment transitions and subsequent changes in income poverty and hardship status over one- and two-year periods from 2001 to 2005.

5.1.1 **Labour market status, in-work support and economic circumstances of families with children**

In 2005 just over half (53 per cent) of lone parent families and the vast majority (94 per cent) of couple families had at least one parent who worked for 16 or more hours per week. Some families receive in-work tax credits to supplement their family income. Two-thirds of working lone parent families were in receipt of Working Tax Credit (WTC) in 2005, as were one quarter of single-earner families, and one in ten dual-earner families. Working lone parent families and single-earner couple families received similar amounts of tax credits on average (£101 and £98 of combined WTC and Child Tax Credit), while dual-earner couple families received an average of £65, reflecting the fact that their earnings were usually higher.

Tax credits are thus an important element of in-work income. However the factors that make a family eligible for in-work tax credits are complex. This means it is not possible to use the FACS data to identify those eligible for, but not claiming, in-work tax credits, to explore how their circumstances differ from those who are in receipt of in-work tax credits. Nevertheless, it is still useful to consider the circumstances of families in receipt of in-work tax credits as a group, in order to

explore changes in living standards for these families following a move into or out of work.

In 2005 almost one in five (18 per cent) families with children were living in income poverty. Non-working families had the highest rates of income poverty (55 per cent of non-working lone parent families and 57 per cent of non-working couple families were in income poverty). There were very few (three per cent) dual-earning couple families in income poverty. However, having just one parent who worked for 16 or more hours per week did not guarantee that the family would avoid income poverty. Thirteen per cent of working lone parent families were in income poverty, as were 15 per cent of couple families where just one parent worked for 16 or more hours per week.

Rates of severe hardship also varied according to family work status. Among non-working families 63 per cent of lone parent families and 52 per cent of couple families were experiencing hardship. In work lone parent families recorded a higher rate of severe hardship (24 per cent) than both single-earner and dual-earner couple families (13 per cent and five per cent respectively). A quarter (26 per cent) of families receiving in-work tax credits experienced severe hardship (30 per cent of lone parent families and 23 per cent of couple families). Fourteen per cent of working families receiving WTC experienced both income poverty and severe hardship. Single-earner couple families were the most likely (22 per cent) to experience both income poverty and severe hardship.

5.1.2 The impact of moving into work on income poverty

The longitudinal element of FACS was used to look at the association between movements into and out of work and changes in the economic circumstances of families. Between two annual waves of FACS 13 per cent of families moved into work. Couple families were almost twice as likely as lone parent families to have a parent that experienced this move (the respective figures were 21 per cent and 12 per cent).

Following a movement into work a substantial proportion (70 per cent) of families moved out of income poverty a year later, and this rate was the same for lone parent families and couple families. Lone parent families who received in-work tax credits had higher income poverty exit rates after one year (75 per cent) than couple families (62 per cent). Rates of income poverty exit improved further for families that remained in work for a further year – 77 per cent of lone parent families and 78 per cent of couple families had escaped income poverty after finding work and remaining in it for two years.

5.1.3 The impact of moving into work on hardship

Moves out of hardship following a transition into work were less pronounced and happened at a slower rate than moves out of income poverty. Overall, the exit rates from (severe) hardship after one year were similar for couple and lone parent families, at around 40 per cent (38 per cent for lone parent families and 42 per

cent for couple families). Although sample sizes make robust analysis difficult (and hence these results should be treated with caution), the general picture is that couple families had slightly higher hardship exit rates than lone parent families.

A sizeable number of both lone parent and couple families that remained in work for two years experienced a move out of hardship in the second year after a move into work. At the end of the two-year observation period over half of lone parent families (55 per cent) and three fifths of couple families (63 per cent), who moved into work and remained in work for two years, had escaped hardship.

5.1.4 The factors that influenced improvements to income and living standards

Movement into work was the key factor associated with a move out of income poverty and hardship over time. Couple families were more likely to enter work than lone parent families and so overall they were more likely to exit income poverty and hardship over time. Lone parent families who moved into work had relatively high exit rates from income poverty, but because fewer lone parent families start work, overall they were less likely than couple families to exit income poverty and hardship over time. Other factors were also associated with a shift in economic circumstances over time, including changes in partnership status, family size, parental health, ethnicity, and tenure. Over the two-year period, and taking these other factors into account, couple families were more likely than lone parent families to leave income poverty and hardship.

5.1.5 The impact of moving out of work on income and living standards

The research also looked at families that moved out of work. Relatively few families made this transition. Lone parent families were more likely to make this transition than couple families (figures were five per cent and one per cent respectively moved out of work and remained out of work for two years). Again this limits the sample sizes that could be used in the analysis, so some of the findings here should be treated with caution. The impact of leaving work on income poverty was starker for couple families than lone parent families – three-quarters (74 per cent) of couple families who left and remained out of work for two years moved into and stayed in income poverty, compared to just over half (54 per cent) of lone parent families. The proportions moving into hardship were markedly lower, which is to be expected given the more immediate impact that losing a job has on the family income. Overall a slightly higher proportion of couple families entered hardship following a sustained move out of work (32 per cent of couple families who left and remained out of work for two years moved into and stayed in hardship, compared to 26 per cent of lone parent families).

5.1.6 The factors that influenced movements into income poverty and living standards hardship

Again a movement out of work had the strongest relationship with a move into income poverty, and into hardship. Other factors associated with these moves were having a large family, having a mother from a Black or Minority Ethnic group, a mother who was not well qualified, or living in social rented accommodation. Families that received in-work tax credits were more likely than those who did not to fall into income poverty and hardship following an exit from work. This is not surprising as these families were more likely to be receiving lower incomes and hence be nearer the income poverty and hardship thresholds – so even small decreases in income or living standards would see them fall below this level.

5.2 Conclusions

This and other research has shown that families can escape income poverty through work. Most who moved into work of 16 or more hours per week found that the increased income they received from work moved them out of income poverty quite quickly. However, for many, a move out of material hardship was a much slower process.

The evidence from this report also shows that if parents lost their jobs (or moved into work for less than 16 hours per week) their family was likely to make a transition into income poverty again. This suggests that improved work retention and progression in the workplace are key factors that can help families to improve their living standards.

In-work tax credits play an important role in supplementing earnings and make a significant contribution to the income of families with children, especially for working lone parent families – the vast majority of whom receive in-work tax credits. However, most families who receive in-work tax credits are lower earners who are closer to the income poverty threshold. It is clear from the evidence from FACS that in-work tax credits do not entirely make up the difference between family income and the low-income threshold, as one in five (19 per cent) families with children receiving in-work tax credits remained below the income poverty threshold. This suggests that tax credit policy needs to sit closely with labour market policies, and that a dynamic approach is needed to ensure that families who move into work can retain and progress in work, to minimise the numbers in income poverty and hardship.

For couple families it was single-earner families who were most likely to be in receipt of in-work tax credits. Even so, only a minority of single-earner couple families received WTC (25 per cent). For these families, who were also likely to have low wages from work, tax credits again did not make up the difference between family income and the low-income threshold, and consequently these families continued to have high rates of in-work income poverty.

Given the role in-work tax credits play in supplementing family income, further research to explore their role in improving the living standards of families with children would be useful. This research has adopted a longitudinal approach to investigating the role of work in maintaining living standards and has used three consecutive waves of FACS to explore transitions across two and three years of annual FACS interviews. To fully explore the role of in-work tax credits, further research would need to overcome two methodological challenges; first to identify eligible non-claimants of in-work tax credits to enable comparisons of families on similar incomes who do and do not claim in-work tax credits, and secondly to use more waves of FACS to understand the long-term impacts of in-work tax credits on living standards.

Appendix A

The modified OECD equivalence scale

The main equivalence scales used in Households Below Average Income are the modified Organisation for Economic Co-operation and Development (OECD) scales, which take the values shown in Table A.1. Two separate scales are used, one for income before housing costs (BHC) and one for income After Housing Costs. Only the BHC scale is given below, as that is the only measure of income used in this study.

The construction of household equivalence values from these scales is straightforward. The equivalence scales take a single person (lone parent) as the reference point, with an equivalence value of 1.0. Each child aged under 14 is given a weight of 0.3 and each child aged 14 years and over is given a weight of 0.5. For example, the equivalence value for a family containing a lone parent with a four-year-old and a 14-year-old child would be 1.8 from the sum of the scale values:

$$1.0 + 0.3 + 0.5 = 1.8$$

This implies that this family needs 80 per cent more income than a single person without children to have the same standard of living.

Table A.1 Equivalence scale values (BHC)

Person	Equivalence scale
Lone parent	1.0
Couple	1.5
Children aged under 14 years	0.3
Children aged 14 years and over	0.5

For further information on the equalisation process, see Department for Work and Pensions (2007).

Appendix B

Logistic regression coefficient tables

In these tables bold text indicates that the odds ratio coefficient is significantly different from 1.00 at the 95 per cent level.

Table B.1 Factors associated with families moving out of income poverty over one year

	Odds ratio	Sig
Family type		
Couple	REF	REF
Lone parent	0.70	0.00
Work status over one year		
Not work 16+ hrs : not work 16+ hrs	REF	REF
Not work 16+ hrs: work 16+ hrs	3.76	0.00
Ethnicity of mother		
White	REF	REF
Mother is Black or from a Minority Ethnic group	0.61	0.00
Age group of youngest child in first wave		
0 - 4	REF	REF
5 - 10	1.38	0.00
11 - 15	0.99	0.91
16 - 18	0.91	0.70
Number of dependent children		
1	REF	REF
2	1.18	0.06
3 or more	1.26	0.22
Housing tenure in first wave		
Owned/mortgage	REF	REF
Social tenant	1.50	0.00
Private tenant	4.40	0.00
Other	0.80	0.44
Government Office Region (GOR) in first wave		
North East	REF	REF
North West	1.07	0.73
Yorkshire and Humber	1.21	0.35
East Midlands	1.21	0.34
West Midlands	1.65	0.02
South West	2.30	0.00
Eastern	1.55	0.06
London	1.66	0.01
South East	2.17	0.00
Wales	1.18	0.41
Scotland	1.04	0.82

Table B.2 Factors associated with families moving out of living standards hardship over one year

	Odds ratio	Sig
Family type		
Couple	REF	REF
Lone parent	0.72	0.00
Work status over one year		
Not work 16+ hrs : not work 16+ hrs	REF	REF
Not work 16+ hrs : work 16+ hrs	2.41	0.00
Number of dependent children		
1	REF	REF
2	1.04	0.62
3+	0.75	0.04
Highest academic qualification		
GCSE	REF	REF
GCE A-level/SCE Higher Grades	0.94	0.80
First degree	4.41	0.00
Higher degree	1.18	0.84
Other academic qualifications	1.86	0.10
None	0.86	0.17
Housing tenure in first wave		
Owned/mortgage	REF	REF
Social tenant	0.41	0.00
Private tenant	0.43	0.00
Other	1.01	0.98
Mother has long-standing illness or disability		
No	REF	REF
Yes	0.67	0.00
GOR in first wave		
North East	REF	REF
North West	0.61	0.02
Yorkshire and Humber	0.58	0.02
East Midlands	0.50	0.00
West Midlands	0.74	0.20
South West	0.83	0.45
Eastern	0.63	0.07
London	0.46	0.00
South East	0.51	0.00
Wales	0.53	0.01
Scotland	0.49	0.00

Table B.3 Factors associated with families moving into income poverty over one year

	Odds ratio	Sig
Work status over one year		
Work 16+ hrs : work 16+ hrs	REF	REF
Work 16+ hrs : not work 16+ hrs	26.99	0.00
In-work tax credits receipt over one year		
No: no	REF	REF
No: £0 - £49.99	1.46	0.12
No : £50 - £74.99	1.74	0.04
No : £75 - £99	1.31	0.46
No: £100+	1.27	0.56
£0 - £49.99: no	1.54	0.05
£50 - £74.99 : no	2.25	0.00
£75 - £99.99 : no	2.01	0.00
£100+ : no	3.07	0.00
£0 - £49.99 in first wave	2.78	0.00
£50 - £74.99 in first wave	3.86	0.00
£75 - £99.99 in first wave	4.50	0.00
£100+ in first wave	3.03	0.00
Family type over one year		
Couple: couple	REF	REF
Lone parent: lone parent	0.65	0.00
Ethnicity of mother		
White	REF	REF
Mother is Black or from a Minority Ethnic group	1.44	0.01
Number of dependent children		
1	REF	REF
2	1.14	0.15
3+	1.71	0.00
Age group of youngest child		
0 - 4	REF	REF
5 - 10	0.95	0.61
11 - 15	1.28	0.01
16 - 18	1.57	0.02
Continued		

Table B.3 Continued

	Odds ratio	Sig
Highest academic qualification		
GCSE	REF	REF
GCE A-level/SCE Higher Grades	0.88	0.32
First degree	0.70	0.01
Higher degree	0.65	0.04
Other academic qualifications	0.74	0.27
None	1.21	0.07
Mother has long-standing illness or disability over one year		
No: no	REF	REF
Yes: yes	1.28	0.01
Housing tenure in first wave		
Owner/mortgage	REF	REF
Social tenant	1.60	0.00
Private tenant	1.02	0.92
Other	1.03	0.93
GOR in first wave		
North East	REF	REF
North West	1.07	0.70
Yorkshire and Humber	0.70	0.07
East Midlands	0.81	0.30
West Midlands	1.03	0.89
South West	0.76	0.19
Eastern	0.87	0.48
London	1.68	0.01
South East	0.97	0.87
Wales	1.00	1.00
Scotland	0.79	0.24

Table B.4 Factors associated with families moving into living standards hardship over one year

	Odds ratio	Sig
Work status over one year		
Work 16+ hrs : work 16+ hrs	REF	REF
Work 16+ hrs : not work 16+ hrs	1.38	0.01
In-work tax credits receipt over one year		
No: no	REF	REF
No: £0 - £49.99	1.45	0.23
No : £50 - £74.99	3.30	0.00
No : £75 - £99	2.24	0.02
No: £100+	3.65	0.00
£0 - £49.99: no	2.67	0.00
£50 - £74.99 : no	2.18	0.00
£75 - £99.99 : no	2.77	0.00
£100+ : no	3.31	0.00
£0 - £49.99 in first wave	2.17	0.01
£50 - £74.99 in first wave	3.72	0.00
£75 - £99.99 in first wave	3.41	0.00
£100+ in first wave	4.15	0.00
Family type over one year		
Couple: couple	REF	REF
Lone parent: lone parent	0.65	0.00
Ethnicity of mother		
White	REF	REF
Mother is Black or from a Minority Ethnic group	1.38	0.01
Number of dependent children		
1	REF	REF
2	0.95	0.63
3+	1.37	0.02
Age group of youngest child		
0 - 4	REF	REF
5 - 10	0.71	0.00
11 - 15	0.65	0.00
16 - 18	0.63	0.07

Continued

Table B.4 Continued

	Odds ratio	Sig
Highest academic qualification		
GCSE	REF	REF
GCE A-level/SCE Higher Grades	0.72	0.03
First degree	0.52	0.00
Higher degree	0.43	0.01
Other academic qualifications	0.98	0.94
None	1.42	0.00
Mother has long-standing illness or disability over one year		
No: no	REF	REF
Yes: yes	1.32	0.01
Housing tenure in first wave		
Owner/mortgage	REF	REF
Social tenant	1.82	0.00
Private tenant	2.18	0.00
Other	1.54	0.12
GOR in first wave		
North East	REF	REF
North West	1.11	0.66
Yorkshire and Humber	1.59	0.06
East Midlands	1.36	0.19
West Midlands	1.50	0.09
South West	1.31	0.30
Eastern	2.66	0.00
London	1.47	0.10
South East	1.74	0.02
Wales	1.68	0.03
Scotland	0.02	0.00

Table B.5 Factors associated with families moving out of income poverty over two years

	Odds ratio	Sig
Work status over two years		
Not work, not work, not work	REF	REF
Not work, work, work	7.61	0.00
Not work, not work, work	6.18	0.00
Not work, work, not work	0.76	0.47
Family type over two years		
Couple	REF	REF
Lone parent	0.68	0.01
Housing tenure in first wave		
Owned/mortgage	REF	REF
Social tenant	1.10	0.54
Private tenant	1.93	0.01
Other	2.51	0.01
GOR in first wave		
North East	REF	REF
North West	0.94	0.80
Yorkshire and Humber	1.29	0.30
East Midlands	1.00	0.99
West Midlands	1.02	0.95
South West	2.62	0.00
Eastern	1.43	0.22
London	1.51	0.09
South East	1.72	0.05
Wales	0.99	0.96
Scotland	0.90	0.67

Table B.6 Factors associated with families moving out of living standards hardship over two years

	Odds ratio	Sig
Work status over two years		
Not work, not work, not work	REF	REF
Not work, work, work	7.53	0.00
Not work, not work, work	4.73	0.00
Not work, work, not work	1.05	0.92
Family type over two years		
Couple	REF	REF
Lone parent	0.69	0.01
Receipt of WFTC/WTC during two years		
No	REF	REF
Yes	0.54	0.03
Highest academic qualification		
GCSE	REF	REF
GCE A-level/SCE Higher Grades	1.05	0.87
First/higher degree	2.93	0.00
Other academic qualifications	2.11	0.12
None	0.88	0.35
GOR in first wave		
North East	REF	REF
North West	0.68	0.12
Yorkshire and Humber	0.60	0.05
East Midlands	0.43	0.00
West Midlands	0.42	0.00
South West	0.59	0.09
Eastern	0.54	0.04
London	0.28	0.00
South East	0.50	0.01
Wales	0.51	0.01
Scotland	0.54	0.01

Table B.7 Factors associated with families moving into income poverty over two years

	Odds ratio	Sig
Work status over two years		
Work, work, work	REF	REF
Work, not work, work	1.78	0.12
Work, work, not work	29.32	0.00
Work, not work, not work	17.57	0.00
Receipt of WFTC/WTC during two years		
No	REF	REF
Yes	1.84	0.00
Ethnicity of mother		
White	REF	REF
Mother is Black or from a Minority Ethnic group	2.14	0.00
Number of dependent children		
1	REF	REF
2	1.19	0.12
3+	1.90	0.00
Age group of youngest child		
0 - 4	REF	REF
5 - 10	1.03	0.81
11 - 15	1.51	0.00
16 - 18	1.82	0.10
Highest academic qualification		
GCSE	REF	REF
GCE A-level/SCE Higher Grades	1.04	0.79
First/higher degree	0.62	0.00
Other academic qualifications	0.93	0.80
None	1.25	0.10
Housing tenure in first wave		
Owned/mortgage	REF	REF
Social tenant	1.58	0.00
Private tenant	1.44	0.09
Other	1.20	0.56

Table B.8 Factors associated with families moving into living standards hardship over two years

	Odds ratio	Sig
Work status over two years		
Work, work, work	REF	REF
Work, not work, work	2.76	0.01
Work, work, not work	2.92	0.00
Work, not work, not work	3.02	0.00
Family type over two years		
Couple	REF	REF
Lone parent	1.81	0.00
Receipt of WFTC/WTC during two years		
No	REF	REF
Yes	3.40	0.00
Ethnicity of mother		
White	REF	REF
Mother is Black or from a Minority Ethnic group	1.91	0.00
Number of dependent children		
1	REF	REF
2	0.93	0.56
3+	1.46	0.02
Age group of youngest child		
0 - 4	REF	REF
5 - 10	0.67	0.00
11 - 15	0.59	0.00
16 - 18	0.45	0.19
Highest academic qualification		
GCSE	REF	REF
GCE A-level/SCE Higher Grades	0.66	0.04
First/higher degree	0.56	0.01
Other academic qualifications	1.49	0.22
None	1.56	0.01
Housing tenure in first wave		
Owned/mortgage	REF	REF
Social tenant	1.78	0.00
Private tenant	2.08	0.00
Other	1.05	0.89

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